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Indian Economy and Indian Financial System

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INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

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Chapterwise Question Bank
Edition January 2026
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CHAPTER 1

An Overview of Indian Economy

May/June 2014

1. According to the Angus Maddison database, what was the combined contribution of India and China to the global GDP in 1000 AD, computed in 1990 dollars and purchasing power parity terms?
(A) 24.4%
(B) 50.5%
(C) 52.0%
(D) 16.1%

Ans :

(B) 50.5%
The Angus Maddison database indicates that in 1000 AD, India and China were dominant economic powers. Their joint contribution to the world's GDP was 50.5%. This figure highlights the significant economic stature of these two nations in the pre-colonial era, long before the industrial revolution reshaped the global economic landscape.

Oct/Nov 2023

2. By 1600 AD, India's individual share of global GDP had risen to what percentage, according to the Angus Maddison database?
(A) 23%
(B) 29%
(C) 24.4%
(D) 16.1%

Ans :

(A) 23%
Following a period of growth, by the year 1600 AD, India's individual contribution to the global GDP accounted for 23%. This was part of a combined 52% share with China. A century later, India's share would further increase to 24.4%, marking a peak before the decline initiated by British colonialism.

May/June 2005

3. In terms of GDP purchasing power parity (PPP), what was India's global ranking as per the International Monetary Fund (IMF) in 2021?
(A) 1st
(B) 2nd
(C) 3rd
(D) 5th

Ans :

(C) 3rd
While India's contribution to nominal global GDP was 7.3% in 2021, its economic size is more substantial when measured in purchasing power parity (PPP) terms. According to the IMF, India is ranked 3rd in the world on this basis, placing it only behind the USA and China, highlighting its status as a major global economy.

Oct/Nov 2011

4. Which of the following best describes the economic condition of India during the pre-independence period under British rule?
(A) Rapid industrialization and high productivity growth
(B) Significant investment in social sector development
(C) A balanced trade policy fostering domestic industries
(D) Near-stagnation with minimal change in production organisation

Ans :

(D) Near-stagnation with minimal change in production organisation
The pre-independence era was characterized by dismal economic performance. The colonial state's policies created significant growth barriers, leading to a state of near-stagnation. There was very little change in the organisation of production or in productivity levels, as the primary focus of the British administration was exploitation of resources rather than genuine economic development for India.

May/June 2021

5. The World Bank classifies economies into four categories based on per capita income. Which category does the Indian economy fall under?
(A) Low Income

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(B) Upper Middle-Income
(C) Lower Middle-Income
(D) High Income

Ans :

(C) Lower Middle-Income
The World Bank categorizes national economies based on their per capita income levels. India is classified as a lower-middle-income economy. This category includes countries with a Per Capita Income (PCI) between $996 and $3,895. India's PCI of $1,891 as of 2019 placed it firmly within this specific classification, despite its large overall GDP.

Oct/Nov 2015

6. According to the World Bank classification, what was India's Per Capita Income (PCI) as of 2019?
(A) $996
(B) $1,891
(C) $3,895
(D) $5,230

Ans :

(B) $1,891
As of 2019, India's Per Capita Income (PCI) was recorded as $1,891. This figure places India in the lower-middle-income category as defined by the World Bank, which covers the range from $996 to $3,895. This relatively low PCI is a key characteristic of the Indian economy, reflecting widespread challenges like poverty and unemployment.

May/June 2009

7. Which of the following is NOT listed as a primary factor contributing to India's low per capita income?
(A) High levels of poverty
(B) Widespread unemployment
(C) High levels of illiteracy
(D) High levels of literacy

Ans :

(D) High levels of literacy
The low per capita income in India is attributed to several structural challenges. These include high levels of poverty, significant unemployment, and widespread illiteracy. High levels of literacy, on the contrary, would be a factor that contributes positively to economic development and would help in increasing per capita income, not suppressing it.

Oct/Nov 2025

8. What was the primary mechanism used by the government of independent India to address developmental issues and allocate funds for various sectors?
(A) Five-year plans
(B) Ad-hoc policy announcements
(C) Annual budget allocations only
(D) Foreign direct investment policies

Ans :

(A) Five-year plans
After independence, the Indian government adopted a planned economic development model to tackle the nation's backwardness. The primary instrument for this strategy was the implementation of five-year plans. These plans involved setting specific targets for various sectors and ensuring the systematic allocation of funds to achieve the defined developmental goals over a five-year horizon.

May/June 2018

9. Which of the following is identified as a key characteristic of the Indian economy?
(A) Low reliance on the primary sector
(B) Low rate of unemployment
(C) Excessive reliance on the primary sector
(D) Absence of disguised unemployment

Ans :

(C) Excessive reliance on the primary sector
One of the defining characteristics of the Indian economy, especially in its earlier developmental stages, has been an excessive reliance on the primary sector (agriculture and allied activities). This feature, along with low per capita income, high unemployment rates (including underemployment and disguised unemployment), and rapid population growth, shapes the nature of the economy.

Oct/Nov 2006

10. Identify the incorrect statement regarding the characteristics of the Indian economy.
(A) The economy is characterized by low population growth.
(B) The economy suffers from a high rate of underemployment and disguised unemployment.
(C) There is a vicious circle of poverty affecting a large part of the population.
(D) The economy has a low per capita real

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income.

Ans :

(A) The economy is characterized by low population growth.
The Indian economy is influenced by several challenging factors, including low per capita real income, high rates of various forms of unemployment, and a vicious circle of poverty. However, rapid population growth, not low population growth, is another one of the key characteristics that has historically put pressure on the country's resources and development efforts.

May/June 2012

11. What is the base year used for the Macro-Economic Aggregates data presented in Table 1.1?
(A) 2004-05
(B) 2010-11
(C) 2014-15
(D) 2011-12

Ans :

(D) 2011-12
The data presented for India's Macro-Economic Aggregates is calculated at current prices. The table explicitly states that the base year for these calculations is 2011-12. Using a consistent base year is crucial for comparing economic data over time by removing the effects of inflation from real growth measurements.

Oct/Nov 2019

12. Based on the data in Table 1.1: Macro-Economic Aggregates, which of the following statements about the period 2014-15 to 2019-20 is correct?
(A) Gross Domestic Product consistently decreased each year.
(B) Gross Savings showed a general upward trend.
(C) Per Capita GNI (₹) was highest in the year 2014-15.
(D) Net taxes on products were lower in 2019-20 than in 2018-19.

Ans :

(B) Gross Savings showed a general upward trend.
Gross Savings increased from ₹40,19,957 crore in 2014-15 to ₹63,85,981 crore in 2019-20, showing a clear upward trend. Gross Domestic Product and Per Capita GNI (₹) consistently increased during this period, not decreased. Net taxes on products were higher in 2019-20 (₹18,89,670 crore) than in 2018-19 (₹17,25,744 crore).

May/June 2007

13. According to Table 1.1, what was India's population in lakhs for the year 2020-21?
(A) 13,410
(B) 13,270
(C) 13,554
(D) 13,140

Ans :

(C) 13,554
The data for India's Macro-Economic Aggregates shows that for the financial year 2020-21, the population figure is listed as 13,554 lakhs. These population figures, as noted, relate to the mid-financial year and are sourced from the National Statistical Office (NSO).

Oct/Nov 2022

14. As per Table 1.1, what was the value of 'Consumption of Fixed Capital' in the year 2017-18?
(A) ₹15,91,332 crore
(B) ₹14,49,697 crore
(C) ₹19,79,987 crore
(D) ₹17,64,812 crore

Ans :

(D) ₹17,64,812 crore
The row for 'Consumption of Fixed Capital' shows the values for each financial year. For the year 2017-18, the specific value recorded for this economic aggregate is ₹17,64,812 crore. This figure represents the depreciation or wear and tear of capital assets during that period.

May/June 2025

15. What was India's Per Capita GDP (in ₹) for the financial year 2019-20 according to Table 1.1?
(A) 151,760
(B) 142,328
(C) 130,061
(D) 145,680

Ans :

(A) 151,760
The provided macro-economic data is at current prices. For the financial year 2019-20, the value listed in the row for 'Per Capita GDP(₹)' is

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151,760. This figure is calculated by dividing the Gross Domestic Product of that year by the total mid-year population, providing an average measure of economic output per person.

Oct/Nov 2010

16. In which year between 2014-15 and 2019-20 did the 'Primary income receivable from ROW (net)' record its most negative value?
(A) 2014-15
(B) 2018-19
(C) 2016-17
(D) 2019-20

Ans :

(B) 2018-19
The values for 'Primary income receivable from ROW (net)' are: -147,430 (2014-15), -159,779 (2015-16), -176,400 (2016-17), -184,813 (2017-18), -202,324 (2018-19), and -193,114 (2019-20). The largest negative value, -202,324, occurred in the year 2018-19, indicating the largest net outflow of primary income in that period.

May/June 2016

17. The data for the year 2020-21 in Table 1.1 is specified as which type of estimate?
(A) First Revised Estimates
(B) Provisional Estimates
(C) Second Revised Estimates
(D) Final Estimates

Ans :

(B) Provisional Estimates
The source data specifies the nature of the estimates for different years. The data for 2020-21 are explicitly stated to be "Provisional Estimates." This means the figures are initial calculations and are subject to revision as more complete data becomes available, unlike revised or final estimates which are more concrete.

Oct/Nov 2008

18. What was the share of the agriculture sector in India's GDP in the year 1950?
(A) 53.1%
(B) 16.6%
(C) 30.3%
(D) 36.1%

Ans :

(A) 53.1%
In 1950, shortly after independence, India was predominantly an agricultural economy. The agriculture sector was the largest contributor to the nation's GDP, accounting for a significant 53.1% share. In contrast, the industry sector's share was 16.6% and the services sector's share was 30.3% during the same year.

May/June 2023

19. In which period did the services sector's contribution to GDP first surpass that of the agriculture sector in India?
(A) 1950-51
(B) 1960-61
(C) 1980-81
(D) 1990-91

Ans :

(C) 1980-81
A significant structural shift occurred in the Indian economy in the year 1980-81. During this period, the services sector's share of GDP rose to 38%, surpassing the agriculture sector's contribution, which stood at 36.1%. This marked a key turning point in the economy's evolution towards a service-dominated structure.

Oct/Nov 2014

20. Who published the first estimates of national income in India for the year 1867-1868 in the book "Poverty and Un-British Rule in India"?
(A) V.K.R.V. Rao
(B) William Digby
(C) R.C. Desai
(D) Dadabhai Naoroji

Ans :

(D) Dadabhai Naoroji
Dadabhai Naoroji was a pioneer in Indian economic thought and analysis. He published the first-ever estimates of India's national income in his seminal work, "Poverty and Un-British Rule in India." His calculations for the year 1867-1868 estimated the national income of British India to be ₹340 crore.

May/June 2019

21. According to Dadabhai Naoroji's estimates for 1867-1868, what was the per capita income in British India?
(A) ₹142 per annum
(B) ₹172 per annum
(C) ₹20 per annum

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(D) ₹250 per annum

Ans :

(C) ₹20 per annum
In his pioneering estimation of national income for 1867-1868, Dadabhai Naoroji calculated that the per capita income in British India was a meager ₹20 per annum at current prices. This extremely low figure was used to highlight the extent of poverty and economic drain under British rule, forming a central part of his critique.

Oct/Nov 2017

22. According to the work of Angus Maddison, India's share of global income shrank from 23% in 1600 AD to what percentage by 1947?
(A) 10%
(B) 3%
(C) 7%
(D) 5%

Ans :

(B) 3%
The research by Cambridge economist Angus Maddison provides a stark illustration of India's economic decline during the colonial period. His findings show that India's share of the world's income, which was a robust 23% in 1600 AD, had drastically shrunk to a mere 3% by 1947, the year the British left.

May/June 2011

23. The British impact on the Indian economy is discussed in three phases. Which event marked the beginning of the second phase (1757–1857 AD)?
(A) The foundation of the East India Company
(B) The Sepoy Mutiny
(C) The opening of the Suez Canal
(D) The Battle of Plassey

Ans :

(D) The Battle of Plassey
The second phase of British impact, from 1757 to 1857 AD, began with the Battle of Plassey. This event was a major turning point, marking the start of direct colonial control and political dominance. This phase was characterized by blatant robbery, exploitative land revenue policies, and the accumulation of vast fortunes by company officers.

Oct/Nov 2020

24. Which of the following was NOT a land revenue system introduced by the British to take excessive land tax from farmers?
(A) Chauth
(B) Zamindari
(C) Mahalwari
(D) Ryotwari

Ans :

(A) Chauth
To maximize revenue extraction from the peasantry, the British introduced several land taxation systems. These included the Zamindari, Mahalwari, and Ryotwari systems, each designed to exploit Indian farmers. Chauth, however, was a tax levied by the Maratha Empire in the 18th century and was not a British-introduced land revenue system.

May/June 2006

25. An East India Company official in 1860 oversees the dissolution of the company and the transfer of all administrative power to the British Crown. This period is marked by policies of de-industrialisation and agricultural commercialisation. Which phase of the British Era does this scenario represent?
(A) Early British Period: 1600-1757 AD
(B) The period of blatant robbery: 1757–1857 AD
(C) British Crown Period: 1858 onward
(D) The period of mercantile trade only

Ans :

(C) British Crown Period: 1858 onward
The scenario describes events following the Sepoy Mutiny of 1857. The third phase of the British Era began in 1858, when the British Crown dissolved the East India Company and assumed exclusive, direct control of India. This period was distinctly marked by systematic colonial exploitation through de-industrialisation, wealth drain, and agricultural commercialisation.

Oct/Nov 2013

26. What was the fundamental goal of introducing Western education to India by the British?
(A) To create a group of Indians estranged from their own culture to serve British interests.
(B) To promote genuine intellectual and cultural growth in India.
(C) To prepare Indians for self-governance and independence.

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(D) To provide universal and free education to all Indian citizens.

Ans :

(A) To create a group of Indians estranged from their own culture to serve British interests.
The primary objective behind the introduction of Western education was not altruistic. It was a strategic move to create a class of Indians who, despite having a superficial grasp of English, would be Westernised in their outlook and thus estranged from their own culture. This group was intended to serve as a supportive administrative buffer for the colonial regime.

May/June 2024

27. The unilateral movement of riches from India to Britain without a sufficient economic, commercial, and material return is known as:
(A) Foreign Direct Investment
(B) Home Charges
(C) Bilateral Trade
(D) Wealth Drain

Ans :

(D) Wealth Drain
The term 'Wealth Drain' refers specifically to the one-way transfer of wealth from India to Britain during the colonial era. This occurred through various channels like remittances and home charges, with India receiving no adequate economic or material compensation in return. It was a key mechanism of colonial exploitation that impoverished India.

Oct/Nov 2007

28. In 1776, who studied the drain economy and classified it into four broad streams, including the East India Company's investment and transfer of private income?
(A) Edmund Burke
(B) Philip Francis
(C) Dadabhai Naoroji
(D) R.C. Dutta

Ans :

(B) Philip Francis
While many nationalists and philosophers wrote about the economic drain, Philip Francis provided an early analysis in 1776. He classified the drain into four distinct streams: the East India Company's investment, remittances to other presidencies, the transfer of private income, and the transfer of revenue from private commerce or investment, providing a structured view of the mechanism.

May/June 2015

29. During the period of direct British control (1858-1947), what were the colonial government's official transfers of money to the United Kingdom referred to as?
(A) Colonial Taxes
(B) Imperial Levies
(C) Home Charges
(D) British Subsidies

Ans :

(C) Home Charges
From 1858 to 1947, the official financial transfers from the Government of India to the United Kingdom were termed "Home Charges." These were not payments for goods or services rendered to India but were expenses incurred in Britain on behalf of the Indian colony, including pensions, army expenses, and interest on debt.

Oct/Nov 2021

30. Which of the following was included as a component of "Home Charges" paid by India to Britain?
(A) Payments for Indian exports to Britain
(B) Investments made by British companies in India
(C) Salaries of Indian civil servants working in India
(D) Guaranteed interest payments to railway companies

Ans :

(D) Guaranteed interest payments to railway companies
"Home Charges" comprised several payments from India to Britain. These included dividends to EIC shareholders, pensions for retired British officers, salaries of the Secretary of State for India's office in London, and significantly, the payment of guaranteed interest to British-owned railway companies that had invested in India, ensuring their profits at India's expense.

May/June 2013

31. A British engineer working for the colonial government in India in the late 19th century earns a starting salary of pounds420 a year. This salary is approximately sixty times the average income

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of the Indian labour force. This disparity is a classic example of which aspect of the colonial economy?

(A) The economic drain through high salaries for British officials
(B) A fair wage policy ensuring equitable pay for all workers
(C) A strategic investment in Indian human capital development
(D) An official policy designed to reduce income inequality

Ans :

(A) The economic drain through high salaries for British officials
The scenario highlights the huge salary disparities between British officials and the local population. These inflated salaries, paid from Indian revenues and often remitted back to Britain, constituted a significant part of the 'wealth drain'. It was a mechanism for transferring resources out of India, contributing to its impoverishment while benefiting the colonial rulers.

Oct/Nov 2024

32. Examine the table "Comparative Macroeconomic Performance of India and Britain, 1600–1947". Which statement accurately reflects the data presented?

(A) India's population grew at a faster rate than Britain's population.
(B) Britain's Per Capita GDP in 1947 was approximately 10 times that of India's.
(C) India's total GDP increased by over 50 times during this period.
(D) Britain's Per Capita GDP was lower than India's in 1600.

Ans :

(B) Britain's Per Capita GDP in 1947 was approximately 10 times that of India's.
The data shows that in 1947, India's Per Capita GDP was $618, while Britain's was $6,361. Dividing Britain's figure by India's gives approximately 10.3, indicating that Britain's Per Capita GDP was about 10 times higher than India's. Hence, statement (B) accurately reflects the data.

May/June 2022

33. The term "Hindu rate of growth" was coined by Professor Raj Krishna in 1978 to describe what phenomenon in the Indian economy?

(A) The rapid expansion and high growth rate of the services sector post-liberalisation
(B) The slow annual growth rate of about 3.5% during the 1950s-1980s
(C) The accelerated growth of domestic and international religious tourism circuits
(D) The period of economic buoyancy and recovery observed throughout the 1980s

Ans :

(B) The slow annual growth rate of about 3.5% during the 1950s-1980s
Professor Raj Krishna coined the phrase "Hindu rate of growth" in 1978. It was used to critically describe the persistently low annual growth rate of the Indian economy, which hovered around 3.5% during the first three decades after independence (1950s-1980s), a period dominated by a planned economy model with slow progress.

Oct/Nov 2012

34. During which Five-Year Plan did India first manage to break the "curse of the 'Hindu Rate of Growth'"?

(A) Sixth Five-Year Plan (1980–1985)
(B) Fourth Five-Year Plan (1969–1974)
(C) Fifth Five-Year Plan (1974–1979)
(D) Eighth Five-Year Plan (1992–1997)

Ans :

(A) Sixth Five-Year Plan (1980–1985)
The period of 1980-1990 is regarded as one of economic recovery. It was specifically during the sixth five-year plan (1980-1985) that India successfully broke away from the low-growth trap referred to as the 'Hindu Rate of Growth'. This acceleration was attributed to factors like higher government spending and liberalised import policies.

May/June 2017

35. The high economic growth during the Eighth Five-Year Plan (1992-1997) was primarily attributed to what factor?

(A) A global economic boom
(B) A significant increase in agricultural output
(C) An increase in the inflow of foreign capital
(D) A reduction in government spending

Ans :

(C) An increase in the inflow of foreign capital
The economy grew at a strong 6.7% during the eighth five-year plan (1992-1997). The main

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reason cited for this high growth rate was a significant increase in the inflow of foreign capital. This was a direct consequence of the new economic policy of Liberalisation, Privatisation, and Globalisation (LPG) implemented in 1991.

Oct/Nov 2005

36. What was the average annual GDP growth rate of the Indian economy from 2002-03 to 2006-07?
(A) 5.3%
(B) 6.7%
(C) 7.6%
(D) 8.6%

Ans :

(D) 8.6%
The period from 2002-03 to 2006-07 was one of exceptionally rapid growth for India. Driven by favourable economic policies and a global economic boom, India's GDP grew at an impressive average annual rate of 8.6%. This performance made it the world's second-fastest-growing major economy during that time, just after China.

May/June 2010

37. In response to the 2008 global financial crisis, the Indian government provided fiscal stimulus packages totaling what amount?
(A) ₹5.6 lakh crore (9% of GDP)
(B) ₹3.5 lakh crore (1.86% of GDP)
(C) ₹1.86 lakh crore (3.5% of GDP)
(D) ₹9.0 lakh crore (5.6% of GDP)

Ans :

(C) ₹1.86 lakh crore (3.5% of GDP)
To mitigate the effects of the 2008 global financial crisis triggered by the Lehman collapse, the Indian government took unprecedented action. It provided a significant fiscal stimulus to the economy through three separate packages. The total value of this fiscal support amounted to ₹1.86 lakh crore, which was equivalent to 3.5% of GDP.

Oct/Nov 2009

38. To combat the 2008 financial crisis, the Reserve Bank of India (RBI) injected liquidity into the domestic and external markets amounting to approximately:
(A) ₹1.86 lakh crore
(B) ₹5.6 lakh crore
(C) ₹3.5 lakh crore
(D) ₹6.5 lakh crore

Ans :

(B) ₹5.6 lakh crore
Alongside the government's fiscal stimulus, the Reserve Bank of India (RBI) implemented aggressive monetary easing measures following the 2008 crisis. The central bank injected a massive ₹5.6 lakh crore of liquidity into the system. This amount, representing roughly 9% of GDP, was aimed at maintaining financial stability and supporting economic activity.

May/June 2008

39. Which of the following revolutionary policies was NOT mentioned as being implemented in the economy post-2008?
(A) Goods and Services Tax (GST)
(B) Insolvency and Bankruptcy Code (IBC)
(C) Demonetisation
(D) Foreign Exchange Regulation Act (FERA)

Ans :

(D) Foreign Exchange Regulation Act (FERA)
The period from 2008 to 2021 saw the implementation of several major, revolutionary policies aimed at structural reform. These included the Goods and Services Tax (GST), the Insolvency and Bankruptcy Code (IBC), corporate tax cuts, and demonetisation. The Foreign Exchange Regulation Act (FERA) was a much older law, replaced by FEMA in 1999.

Oct/Nov 2018

40. What was the average annual growth rate of the Indian economy between 2008-09 and 2019-20, prior to the COVID-19 pandemic?
(A) 6.5%
(B) 3.5%
(C) 8.6%
(D) 4.0%

Ans :

(A) 6.5%
In the period following the global financial crisis but before the onset of the COVID-19 pandemic, the Indian economy continued to grow, albeit with some volatility. The average annual growth rate for the period spanning from the financial year 2008-09 to 2019-20 was recorded at 6.5%, based on 2011-12 prices.

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May/June 2020

41. India has faced three major economic shocks in the last four decades. Which of the following is the correct chronological order of these shocks?
(A) 2008 global financial crisis, 1991 BoP crisis, COVID-19 pandemic
(B) 1991 BoP crisis, COVID-19 pandemic, 2008 global financial crisis
(C) 1991 BoP crisis, 2008 global financial crisis, COVID-19 pandemic
(D) COVID-19 pandemic, 1991 BoP crisis, 2008 global financial crisis

Ans :

(C) 1991 BoP crisis, 2008 global financial crisis, COVID-19 pandemic
The text identifies three major shocks that have impacted the Indian economy over the last forty years. The first was the balance of payments (BoP) crisis in 1991, which triggered liberalization. The second was the global financial crisis (GFC) in 2008. The most recent was the COVID-19 pandemic, which began affecting India in early 2020.

Oct/Nov 2016

42. According to the text, the economic impact of the second wave of COVID-19 was estimated to be what fraction of the first wave's impact?
(A) One-third
(B) One-half
(C) Two-thirds
(D) Equal to the first wave

Ans :

(A) One-third
While the first wave of COVID-19 led to a severe economic shock due to a stringent nationwide lockdown, the impact of the second wave was mitigated. This was due to the implementation of more restricted lockdowns and the rising resilience of both firms and individuals. Consequently, the second wave's economic damage is seen to be one-third that of the first.

Oct/Nov 2023

43. Based on Chart 1.1: Structural Breaks in GDP, what was the approximate GDP growth rate during the GFC (Global Financial Crisis)?
(A) 6.4%
(B) 5.1%
(C) 8.0%
(D) 3.9%

NODIA

Ans :

(D) 3.9%
The chart "Structural Breaks in GDP" visually represents growth rates over time, with major economic events highlighted. The bar corresponding to the GFC (Global Financial Crisis) shows a significant dip in the growth rate. The label next to this bar explicitly indicates that the growth rate during this period was 3.9%.

May/June 2014

44. During the first wave of the COVID-19 pandemic, reverse migration from urban to rural areas led to a sharp increase in demand for employment under which scheme?
(A) Pradhan Mantri Jan Dhan Yojana (PMJDY)
(B) Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)
(C) National Food Security Act (NFSA)
(D) Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)

Ans :

(B) Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)
The stringent lockdown during the first wave caused a severe decline in the urban labour market, triggering a mass reverse migration of workers to their villages. This sudden influx of labour in rural areas led to a surge in demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), which provides a legal guarantee for wage employment.

Oct/Nov 2011

45. Which was the only sector that positively contributed to investment demand (GFCF) in 2020-21?
(A) Private corporate investment
(B) Household investment
(C) Government investment
(D) Foreign direct investment

Ans :

(C) Government investment
The lockdown during Q1~2020-21 caused investment demand, measured by Gross Fixed Capital Formation (GFCF), to cease and contract severely. The subsequent recovery in GFCF was expedited primarily due to active government

investment. The text explicitly states that government investment was the only sector that made a positive contribution to investment demand during 2020-21.

May/June 2005

46. Why did the agriculture sector in India remain robust in terms of production during the pandemic?
(A) It received the largest share of government stimulus.
(B) It experienced a sudden surge in export demand.
(C) It shifted completely to technology-driven farming.
(D) It was spared from the lockdown restrictions.

Ans :

(D) It was spared from the lockdown restrictions.
Unlike most other sectors of the economy, agriculture and its allied activities were largely kept out of the purview of the stringent lockdown restrictions imposed during the pandemic. This exemption allowed farming, harvesting, and supply chain activities to continue with minimal disruption, enabling the sector to remain robust and show positive growth.

Oct/Nov 2015

47. According to Table 1.2 "Sector-wise Recovery Pattern," which of the following sectors is classified as 'Still Suffering'?
(A) Trade, hotels, transport, communication and services related to broadcasting
(B) Agriculture, forestry & fishing
(C) Manufacturing
(D) Financial, real estate & professional services

Ans :

(A) Trade, hotels, transport, communication and services related to broadcasting
Based on the recovery patterns, while Agriculture and Financial services are 'Resilient', and Manufacturing is 'Recovering/Need Repair', the sector grouping of 'Trade, hotels, transport, communication and services related to broadcasting' is explicitly marked as 'Still Suffering', indicating it was the most severely and persistently impacted by the pandemic's contact-intensive restrictions.

May/June 2021

48. An analyst reviewing India's post-pandemic economic data from Table 1.2 observes that the 'Manufacturing' sector had a growth of -0.6% during the pandemic period 2020-21 but a growth of 9.8% in 2021-22 over 2019-20. What would be the correct status classification for this sector based on the table?
(A) Resilient
(B) Recovering/Need Repair
(C) Still Suffering
(D) No Growth

Ans :

(B) Recovering/Need Repair
The data shows that the Manufacturing sector, after a contraction in 2020-21, showed strong positive growth in the subsequent period. This pattern of a sharp fall followed by a strong rebound is characteristic of a sector that is on a path to recovery but may still have underlying issues to address. The provided classification for this status is 'Recovering/Need Repair'.

Oct/Nov 2025

49. As per Table 1.2, which of the following sectors is categorized as 'Resilient' during the pandemic?
(A) Mining & quarrying
(B) Public Administration, defence and other services
(C) Construction
(D) GVA at basic prices

Ans :

(B) Public Administration, defence and other services
The source data provides a classification for each sector's performance. The sectors listed as 'Resilient' are 'Agriculture, forestry & fishing', 'Financial, real estate & professional services', and 'Public Administration, defence and other services'. These sectors managed to withstand the economic shock of the pandemic relatively well, maintaining stability or positive growth.

May/June 2009

50. During the first wave of infections, India's GDP contracted by how much in the first quarter (Q1) of 2020-21?
(A) 23.8%
(B) 6.6%
(C) 0.7%
(D) 2.5%

Ans :

(A) 23.8%
The initial phase of the pandemic and the associated stringent nationwide lockdown led to one of the world's most severe recessions in India. In the first quarter of the financial year 2020-21 (April-June 2020), the country's Gross Domestic Product (GDP) experienced a massive contraction of 23.8% compared to the same period in the previous year.

Oct/Nov 2006

51. Despite a severe initial shock, what was the overall GDP contraction for the entire fiscal year 2020-21?
(A) 23.8%
(B) 10.5%
(C) 6.6%
(D) 4.0%

Ans :

(C) 6.6%
After the drastic 23.8% contraction in Q1, the Indian economy showed a gradual recovery in the subsequent quarters of 2020-21 (Q3: 0.7% & Q4: 2.5%). This recovery momentum in the second half of the year resulted in a substantially less severe contraction of 6.6% for the entire fiscal year.

May/June 2018

52. Which combination of factors led to a reduction in economic momentum beginning in November 2021?
(A) A bumper harvest and falling commodity prices
(B) A surge in exports and strong urban demand
(C) Easing of monetary policy and fiscal stimulus
(D) Coal and semiconductor chip shortages, followed by the third wave

Ans :

(D) Coal and semiconductor chip shortages, followed by the third wave
The economic recovery that was persistent through October 2021 began to lose momentum from November 2021 onwards. This slowdown was caused by a combination of supply-side constraints, specifically shortages of coal and semiconductor chips, which was then compounded by the demand shock from the third wave of COVID-19 that hit in January 2022.

Oct/Nov 2019

53. What major geopolitical event began impeding India's economic recovery from March 2022 onwards?
(A) The US-China trade war
(B) The Brexit negotiations
(C) The Russia-Ukraine conflict
(D) The formation of a new government in Japan

Ans :

(C) The Russia-Ukraine conflict
Just as the economy was navigating the effects of the third wave, a new external shock emerged. The text explicitly states that contagion from the Russia-Ukraine conflict began impeding economic activities from March 2022. This event eroded and delayed the recovery process, likely through channels like higher commodity prices, supply chain disruptions, and global uncertainty.

May/June 2012

54. According to Chart 1.2: Medium-term Real GDP Path, in which year is India's 'Actual GDP' projected to catch up with the 'GDP without COVID' trend line?
(A) 2021-22
(B) 2034-35
(C) 2025-26
(D) 2030-31

Ans :

(B) 2034-35
The chart illustrates two paths for Real GDP: the 'Actual GDP' (including the pandemic's impact) and a hypothetical 'GDP without COVID' trend line. A prominent label on the chart points to the intersection of these two lines, indicating that in the year 2034-35, the 'Real GDP catches the CAGR', signifying the point of recovery from the pandemic's output losses.

Oct/Nov 2022

55. An economic advisor uses RBI's projections, which assume a growth of -6.6% for 2020-21, 8.9% for 2021-22, and 7.2% for 2022-23. Based on these figures and subsequent trend growth, the advisor concludes that India will fully recover from the pandemic's output losses in about 12 years. What year does this projection point to?
(A) 2030-31
(B) 2038-40
(C) 2042-43
(D) 2034-35

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Ans :

(D) 2034-35

The case describes the exact assumptions used by the RBI in its forecast. The analysis states that using these specific growth rates, "RBI has predicted that India to offset COVID-19 losses in 2034-35." It further clarifies this by stating, "Hence, India is expected to overcome COVID-19 pandemic losses in a 12 years' period," directly linking the 12-year timeline to the year 2034-35.

May/June 2007

56. According to the provisional estimates for 2021-22, what was India's GDP growth at Constant (2011-12) Prices?

(A) 8.7%
(B) 19.5%
(C) 6.6%
(D) 4.1%

Ans :

(A) 8.7%

The provisional estimates for the financial year 2021-22 indicate a strong economic recovery. The growth in GDP at Constant (2011-12) Prices was estimated to be 8.7%. This high growth figure is compared against the contraction of 6.6% recorded in the previous pandemic-hit year of 2020-21, and was supported by a low base effect.

Oct/Nov 2010

57. What was the growth rate of India's Nominal GDP (GDP at Current Prices) in the year 2021-22?

(A) 8.7%
(B) 6.6%
(C) 19.5%
(D) 7.2%

Ans :

(C) 19.5%

Nominal GDP, which includes the effects of both real growth and inflation, grew at a very high rate in 2021-22. It was estimated to attain a level of ₹236.65 lakh crore, representing a growth rate of 19.5% over the previous year's ₹198.01 lakh crore. This reflects both a strong real recovery and significant inflation.

May/June 2025

58. An economist is analyzing the quarterly GDP growth figures for 2021-22 at constant prices. The data shows growth rates of 20.1% in Q1, 8.4% in Q2, 5.4% in Q3, and 4.1% in Q4. Which statement best describes the trend observed?

(A) The growth rate decelerated sequentially in each quarter.
(B) The growth rate accelerated consistently throughout the year.
(C) The growth rate remained flat across all four quarters.
(D) The growth rate was negative in the second half of the year.

Ans :

(A) The growth rate decelerated sequentially in each quarter.

The sequence of growth rates 20.1% (Q1), 8.4% (Q2), 5.4% (Q3), and 4.1% (Q4) shows a clear pattern of deceleration. The exceptionally high growth in Q1 was due to the low base of the 2020 lockdown, and as this base effect wore off, the quarterly growth rates moderated sequentially through the rest of the financial year.

Oct/Nov 2008

59. Which of the following statements correctly describes the long-run pattern of structural change in an economy as it develops?

(A) The primary sector's contribution to GDP increases over time.
(B) The secondary sector consistently remains the largest contributor to GDP.
(C) The share of all three sectors in GDP remains relatively constant.
(D) The tertiary sector's contribution increases and eventually surpasses the other sectors.

Ans :

(D) The tertiary sector's contribution increases and eventually surpasses the other sectors.

Structural change is a fundamental process in economic development. The typical long-run pattern involves the share of the primary (agricultural) sector declining, while the shares of the secondary (industrial) and tertiary (services) sectors increase. Eventually, the tertiary sector surpasses the secondary sector to become the dominant contributor to the economy's GDP.

May/June 2016

60. How has the share of agriculture in India's GDP changed from 1990 to 2019?

(A) It increased from 17.7% to 26.9%.
(B) It declined from 26.9% to 17.7%.
(C) It remained constant at around 22%.

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(D) It declined from 53.1% to 36.1%.

Ans :

(B) It declined from 26.9% to 17.7%.
In line with the typical pattern of structural change, the share of agriculture in India's GDP has steadily declined. The text specifies that agriculture's share fell from 26.9% in 1990 to 21.6% in 2000, and this decline continued, reaching 17.8% in 2010 and 17.7% in 2019.

Oct/Nov 2014

61. What was the contribution of the primary sector to India's economy in the year 2020-21?
(A) 60.9%
(B) 19.8%
(C) 20.1%
(D) 17.7%

Ans :

(C) 20.1%
An unusual shift occurred during the pandemic. Because agriculture was allowed to function during the lockdown while other sectors contracted, its relative share in the economy increased. For the year 2020-21, the primary sector's contribution rose to 20.1%, while the secondary sector contributed 19.8% and the services sector contributed 60.9%.

May/June 2023

62. Assertion (A): During the COVID-19 pandemic in 2020-21, the primary sector's contribution to India's GDP increased.
Reason (R): Agriculture was the only sector allowed to function smoothly during the economic lockdown, while other sectors contracted.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion (A) is true, as the primary sector's share rose to 20.1% in 2020-21. The reason (R) is also true, as the text explicitly states that agriculture was spared from lockdown restrictions. The reason directly explains the assertion, as the relative share of agriculture increased precisely because it continued to operate while other sectors were halted.

Oct/Nov 2017

63. Match List-I (Economist/Institution) with List-II (Contribution/Concept).
List-I
P. Professor Raj Krishna
Q. Dadabhai Naoroji
R. World Bank
S. Angus Maddison
List-II
1. Classified India as a lower-middle-income economy
2. Coined the phrase "Hindu rate of growth"
3. Database on historical global GDP shares
4. Published "Poverty and Un-British Rule in India"
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-3, R-4, S-1
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-2, Q-4, R-1, S-3
Professor Raj Krishna coined the term "Hindu rate of growth" (P-2). Dadabhai Naoroji authored "Poverty and Un-British Rule in India" and gave the first national income estimates (Q-4). The World Bank provides the income-based classification of economies, placing India in the lower-middle-income group (R-1). Angus Maddison is known for his historical economic database (S-3).

May/June 2019

64. Consider the following statements about the British era in India:
1. The British introduced the Zamindari, Mahalwari, and Ryotwari systems.
2. The opening of the Suez Canal decelerated the commercialisation of Indian agriculture.
3. The fundamental goal of Western education was to foster Indian culture.
Which of the statements given above is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 only

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Statement 1 is correct; these were the primary land revenue systems introduced by the British. Statement 2 is incorrect; the opening of the Suez Canal accelerated, not decelerated, commercialisation by reducing transport time and costs to Britain. Statement 3 is incorrect; the goal was to create a Westernised class to serve British interests, not foster Indian culture.

Oct/Nov 2020

65. Identify the incorrect pair regarding India's sectoral GDP shares.
(A) 1950: Agriculture - 53.1%
(B) 1950: Industry - 30.3%
(C) 1980-81: Services - 38.0%
(D) 1980-81: Agriculture - 36.1%

Ans :

(B) 1950: Industry - 30.3%
In 1950, the share of agriculture was 53.1% and services was 30.3%. The share of industry was 16.6%, not 30.3%. In 1980-81, the services sector's share (38%) surpassed agriculture's (36.1%), making those pairs correct. Therefore, the pair listing the industry's share as 30.3% in 1950 is incorrect.

May/June 2011

66. Which of the following statements about India's post-independence economic growth is incorrect?
(A) The economy grew at 7.6% during the ninth five-year plan (1997-2002).
(B) The period 1951-1980 was characterized by a low annual growth rate of around 3.5%.
(C) The LPG reforms of 1991 paved the way for higher GDP growth rates.
(D) The 1980-1990 period is regarded as a period of economic buoyancy and recovery.

Ans :

(A) The economy grew at 7.6% during the ninth five-year plan (1997-2002).
The text states that the economy grew at 5.3% during the ninth five-year plan (1997-2002). The 7.6% growth rate was achieved during the tenth five-year plan (2002-2007). The other statements regarding the "Hindu rate of growth" period, the impact of LPG reforms, and the 1980s recovery are all factually correct.

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Oct/Nov 2013

67. Consider the following statements regarding the impact of the COVID-19 pandemic on the Indian economy:
1. The GDP contraction was more severe in countries with a lower stringency index.
2. The economic impact of the third wave was significantly higher than the first wave.
3. The services sector, being contact-intensive, suffered the brunt of the pandemic's impact.

Which of the statements given above is/are correct?
(A) 3 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(A) 3 only
Statement 1 is incorrect; GDP contraction was more severe in countries with a higher stringency index, like India. Statement 2 is incorrect; the impact of the third wave was significantly lower than both the first and second waves. Statement 3 is correct, as contact-intensive services like hotels, transport, and retail were almost halted and suffered the most.

May/June 2006

68. Which of the following were NOT consequences of the commercialisation of Indian agriculture under the British?
(A) Creation of a new class of intermediaries
(B) Increased frequency of famines
(C) Reduction of farmers to landless labour
(D) Increased food security for the local population

Ans :

(D) Increased food security for the local population
The commercialisation of agriculture was forced upon Indian farmers to produce cash crops for British industries, often at the expense of food crops for local consumption. This policy led to the creation of intermediaries, reduced farmers to landless labourers, and notoriously increased the frequency and severity of famines. It did not lead to increased food security.

Oct/Nov 2007

69. Arrange the following events in the evolution of the Indian economy in chronological order:

1. Services sector's GDP share surpasses Agriculture's share.
2. Dadabhai Naoroji publishes the first estimate of national income.
3. The "Hindu rate of growth" period begins.
4. LPG reforms are implemented.

(A) 3, 2, 4, 1
(B) 2, 1, 3, 4
(C) 2, 3, 1, 4
(D) 1, 3, 2, 4

Ans :

(C) 2, 3, 1, 4
The correct chronological order is: Dadabhai Naoroji's estimate was for 1867-68 (2). The "Hindu rate of growth" describes the period from the 1950s to 1980s (3). The services sector surpassed the agriculture sector in 1980-81 (1). The LPG (Liberalisation, Privatisation, Globalisation) reforms were introduced following the 1991 economic crisis (4).

May/June 2024

70. What were the two primary goals of the East India Company when it was founded in 1600 AD?
(A) To establish political rule and introduce western education.
(B) To procure raw materials and find a market for completed goods.
(C) To build infrastructure and promote Indian industries.
(D) To end the Mughal Empire and establish a social welfare state.

Ans :

(B) To procure raw materials and find a market for completed goods.
The first phase of the British impact began with the establishment of the East India Company. Its objectives were purely commercial and exploitative in nature. The company had two main goals: first, to procure a steady and cheap supply of raw materials for its factories in Britain, and second, to secure India as a captive market for its finished goods.

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CHAPTER 2

Sectors of The Indian Economy

Oct/Nov 2014

1. According to the classification of economic activities, which sector involves the direct use of natural resources?
(A) Secondary Sector
(B) Primary Sector
(C) Tertiary Sector
(D) Quaternary Sector

Ans :

(B) Primary Sector
The primary sector includes all economic activities where there is a direct utilization of natural resources. This foundational sector encompasses agriculture, forestry, fishing, and the extraction of fuels, metals, and minerals. It serves as the primary source of raw materials for other sectors and is crucial for a nation's sustenance and initial economic development.

May/June 2021

2. An economy is defined as an 'agrarian economy' when the agriculture sector provides at least what percentage of the country's national revenue and livelihood?
(A) 50%
(B) 25%
(C) 40%
(D) 75%

Ans :

(A) 50%
A nation is classified as an agrarian economy when its agriculture sector, a key component of the primary sector, contributes at least 50% to its national revenue and is the primary source of livelihood for its population. This indicates a heavy dependence on agricultural activities for economic output and employment, which is typical of many developing economies.

Oct/Nov 2006

3. Which of the following is NOT a constituent of the primary sector as listed in the chapter?
(A) Agriculture
(B) Forestry
(C) Manufacturing
(D) Fishing

Ans :

(C) Manufacturing
The primary sector is characterized by the direct extraction of natural resources. While agriculture, forestry, and fishing are core components of this sector, manufacturing is not. Manufacturing involves the processing of raw materials obtained from the primary sector, and therefore, it belongs to the secondary sector of the economy, also known as the industrial sector.

May/June 2005

4. The secondary sector of an economy is primarily involved in which type of economic activity?
(A) Providing services like banking and healthcare
(B) The direct extraction of minerals and fuels
(C) High-level decision making in government and corporations
(D) The processing of raw materials from the primary sector

Ans :

(D) The processing of raw materials from the primary sector
The secondary sector, often referred to as the industrial sector, encompasses all economic activities that involve processing the raw materials extracted by the primary sector. This includes manufacturing, which transforms raw goods into finished products, adding value in the process. It acts as a crucial link between the extraction of resources and the final consumption of goods.

Oct/Nov 2022

5. For an economy to be classified as an 'industrial economy', what condition must the secondary sector meet?
(A) Employing a greater portion of the workforce than the primary agricultural sector
(B) Exporting more than half of its total output

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of manufactured goods internationally
(C) Generating at least half of the nation's Gross Domestic Product and employment
(D) Consisting exclusively of large-scale manufacturing units without small-scale industry

Ans :

(C) Generating at least half of the nation's Gross Domestic Product and employment
An industrial economy is defined as one in which the secondary sector is the dominant force, generating at least half (50%) of the nation's Gross Domestic Product (GDP) and employment. This signifies a structural shift from an agrarian base to an industrial one, where manufacturing and related activities become the primary drivers of economic growth and job creation.

May/June 2018

6. The tertiary sector is characterized by the production of what type of economic output?
(A) Raw materials
(B) Services
(C) Manufactured goods
(D) Knowledge-based products

Ans :

(B) Services
The tertiary sector includes all economic activities that produce services rather than tangible goods. This broad category covers essential services such as education, healthcare, banking, communication, transportation, and tourism. In a service-based economy, this sector is the largest contributor to the national income and livelihood, indicating a high level of economic development and specialization.

Oct/Nov 2016

7. The Quaternary and Quinary sectors are considered subsectors of which main economic sector?
(A) Primary Sector
(B) Secondary Sector
(C) Industrial Sector
(D) Tertiary Sector

Ans :

(D) Tertiary Sector
While the economy is traditionally divided into three main sectors, the Quaternary and Quinary sectors have been introduced to further classify advanced economic activities. In a broader sense, both these sectors, which are focused on knowledge, information, and high-level decision-making, are considered specialized subsectors of the more extensive tertiary (or service) sector.

May/June 2014

8. Which sector is also known as the 'knowledge' sector and is important for assessing the strength of an economy's human resources?
(A) Quaternary Sector
(B) Primary Sector
(C) Quinary Sector
(D) Tertiary Sector

Ans :

(A) Quaternary Sector
The Quaternary sector is identified as the 'knowledge' sector, representing the intellectual aspect of an economy. It includes activities like teaching, research, and development. The strength and size of this sector, which comprises professionals in education, healthcare, and finance, are considered a key indicator of an economy's human resource capabilities and its potential for innovation and growth.

Oct/Nov 2007

9. Which sector includes the highest level of decision-makers in governments and the private corporate sector, often regarded as the "brain" behind an economy's performance?
(A) Quaternary Sector
(B) Tertiary Sector
(C) Quinary Sector
(D) Secondary Sector

Ans :

(C) Quinary Sector
The Quinary sector represents the pinnacle of economic activity, involving the highest levels of decision-making and policy formulation. This exclusive group includes senior company executives, top government officials, research scientists, and key financial and legal advisors. Though small in number, these individuals are considered the "brain" that steers the socioeconomic direction and performance of the economy.

May/June 2025

10. Based on the "Difference between the sectors" table, which sector is described as being

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well-organised and using advanced logistics techniques?
(A) Tertiary Sector
(B) Primary Sector
(C) Secondary Sector
(D) Quinary Sector

Ans :

(A) Tertiary Sector
The comparison table highlights that the tertiary sector is typically well-organised and utilizes advanced logistics techniques to carry out its tasks efficiently. This is in contrast to the primary sector, which often employs old methods, and the secondary sector, which focuses on production methods. The service sector's reliance on organisation and logistics is crucial for its diverse operations.

Oct/Nov 2019

11. Which of the following statements about the primary sector in developing economies like India is correct, as per the provided table?
(A) Employing a very small and declining proportion of the total workforce
(B) Being highly organised and primarily using modern, mechanized methods
(C) Showing a dramatic rise in its employment share in the last decade
(D) Employing a large workforce proportion compared to developed nations

Ans :

(D) Employing a large workforce proportion compared to developed nations
The table comparing the sectors explicitly states that in most developing economies, such as India, the primary sector employs a large proportion of the workforce when compared to developed countries. This reflects the continued dependence on agriculture and related activities for livelihood, even as the sector's contribution to GDP may be declining over time.

May/June 2009

12. Which of the following correctly describes a key function of the secondary sector?
(A) It offers valuable services to the primary and tertiary sectors.
(B) It transforms one good into another through value addition.
(C) It involves activities like banking, insurance, and communications.
(D) It employs a large proportion of the workforce in developing economies.

Ans :

(B) It transforms one good into another through value addition.
A primary function of the secondary sector is the transformation of goods. It takes raw materials from the primary sector and, through manufacturing and processing, transforms them into different, more valuable goods. This process of value addition is central to the industrial sector's role in the economy, creating finished or semi-finished products for consumption or further use.

Oct/Nov 2011

13. What has been a characteristic feature of India's agricultural sector before the implementation of various revolutions?
(A) High degree of commercialisation and diversification
(B) Predominantly large-scale, irrigated farming
(C) Traditional, subsistence, and rain-fed farming
(D) Low demand for agricultural goods due to a stable population

Ans :

(C) Traditional, subsistence, and rain-fed farming
The text describes India's agricultural sector as being traditionally characterized by subsistence and livelihood-focused farming. It was largely rain-fed, oriented towards food grains, and deficient in diversification and commercialisation. This traditional nature necessitated government intervention through a series of revolutions to boost productivity and meet the demands of a growing population and rising incomes.

May/June 2010

14. Match the Revolution in List-I with the corresponding Field/Product in List-II.
List-I (Revolution)
P. White Revolution
Q. Blue Revolution
R. Yellow Revolution
S. Golden Revolution
List-II (Field/Product)
1. Oil Seeds
2. Fruits, Honey, Horticulture
3. Milk/Dairy products

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4. Fish & Aqua
(A) P-3, Q-4, R-1, S-2
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-1, R-2, S-4
(D) P-4, Q-3, R-1, S-2

Ans :

(A) P-3, Q-4, R-1, S-2
The White Revolution, or Operation Flood, is associated with Milk/Dairy products. The Blue Revolution pertains to the increase in production of Fish & Aqua. The Yellow Revolution is linked to the significant growth in the production of Oil Seeds. The Golden Revolution focuses on the development of Fruits, Honey, and Horticulture, diversifying the agricultural output.

Oct/Nov 2024

15. Who is recognized as the "Father" of the Green Revolution in India?
(A) Mr. M.S. Swaminathan
(B) Mr. Verghese Kurien
(C) Mr. Sam Pitroda
(D) Dr. Arun Krishnan

Ans :

(A) Mr. M.S. Swaminathan
Mr. M.S. Swaminathan is widely acclaimed as the Father of the Green Revolution in India. His pioneering work in developing high-yielding varieties of wheat was instrumental in transforming India from a food-deficient nation to one of self-sufficiency. The Green Revolution, which focused on agriculture, took place primarily between 1966 and 1978 under his guidance.

May/June 2017

16. The Silver Revolution, which took place between 1969-1978, is associated with an increase in the production of which product?
(A) Cotton
(B) Eggs
(C) Jute
(D) Fertilisers

Ans :

(B) Eggs
According to the provided table on agricultural revolutions, the Silver Revolution is associated with a significant increase in the production of eggs. This initiative, credited to Mrs. Indira Gandhi, aimed to boost poultry farming and egg output in the country during the period of 1969-1978, contributing to nutritional security and providing an alternative source of income for farmers.

Oct/Nov 2005

17. Identify the incorrect pair from the following combinations of Revolutions and their associated fields.
(A) Pink Revolution - Pharmaceuticals, Prawns, Onion
(B) Brown Revolution - Leather, Cocoa, non-conventional energy
(C) Red Revolution - Meat, Tomato
(D) Grey Revolution - Petroleum

Ans :

(D) Grey Revolution - Petroleum
The Grey Revolution is associated with increased fertiliser production, which occurred during the 1960-1970 period. The Black Revolution is the one connected to petroleum production. The other pairs are correctly matched: Pink Revolution with pharmaceuticals and prawns, Brown Revolution with leather and cocoa, and Red Revolution with meat and tomato production, reflecting diversification efforts in agriculture.

May/June 2020

18. The Evergreen Revolution, initiated in 2014, has which of the following objectives?
(A) Achieving a holistic and sustainable increase in overall agricultural production
(B) Focusing exclusively on increasing the yield of potato crops nationwide
(C) Promoting the cultivation and export of jute and related fibre products
(D) Boosting the domestic exploration and production of petroleum products

Ans :

(A) Achieving a holistic and sustainable increase in overall agricultural production
The Evergreen Revolution, associated with M.S. Swaminathan and spanning from 2014 to 2022, aims for a holistic and sustainable increase in the overall production of agriculture. Unlike earlier revolutions that focused on specific crops or products, this initiative seeks to improve productivity in a way that is environmentally sustainable and ensures long-term food security for the nation.

NODIA

Oct/Nov 2015

19. The Protein Revolution, a term coined by Mr. Narendra Modi in 2020, focuses on what aspect of agriculture?
(A) Production of dairy products
(B) Production of non-conventional energy
(C) Higher production in agriculture
(D) Production of fish and aqua products

Ans :

(C) Higher production in agriculture
The Protein Revolution, a concept introduced in 2020, is aimed at achieving higher production in agriculture. This revolution emphasizes not just quantity but also the nutritional quality of agricultural output, with a focus on protein-rich crops and products to address the nutritional needs of the population. It signifies a shift towards technology-driven, sustainable agricultural growth.

May/June 2013

20. According to the data provided, what was the approximate percentage contribution of the Agriculture & Allied sector to India's economy in the year 1950-51?
(A) 51.8%
(B) 33.3%
(C) 14.2%
(D) 42.6%

Ans :

(A) 51.8%
The table showing the contribution of different sectors to the economy indicates that in the year 1950-51, the Agriculture & Allied sector was the dominant contributor. It accounted for 51.8% of the economic output, highlighting India's status as a predominantly agrarian economy in the initial years after independence, before the shares of industry and services began to grow.

Oct/Nov 2021

21. Observing the trend from 1950-51 to 1980-81, what can be concluded about the contributions of the three major sectors?
(A) The share of Agriculture & Allied sector increased steadily.
(B) The share of the Services sector decreased steadily.
(C) The share of the Industry sector remained constant.
(D) The shares of Industry and Services sectors increased, while Agriculture's share decreased.

Ans :

(D) The shares of Industry and Services sectors increased, while Agriculture's share decreased.
The data from 1950-51 to 1980-81 clearly shows a structural shift. The share of Agriculture & Allied sector declined from 51.8% to 35.4%. Concurrently, the Industry sector's share grew from 14.2% to 24.3%, and the Services sector's share rose from 33.3% to 39.9%, indicating the gradual diversification of the Indian economy.

May/June 2024

22. In which of the following periods did the Services sector's contribution to the economy first cross the 50% mark?
(A) 1980-81
(B) 2000-01
(C) 1990-91
(D) 1970-71

Ans :

(B) 2000-01
According to the provided table on GDP contribution, the Services sector's share was 44.2% in 1990-91. By the year 2000-01, its contribution had risen to 51.0%. This marks the period when India transitioned to a services-dominated economy, with this sector accounting for over half of the national GDP for the first time in the given data series.

Oct/Nov 2008

23. What was the contribution of the Industry sector to the Indian economy in the year 2021-22, according to the 2nd Advance Estimates?
(A) 26.9%
(B) 52.8%
(C) 28.6%
(D) 18.6%

Ans :

(C) 28.6%
The data table sourced from the National Statistics Office (NSO) indicates the economic contribution of various sectors. For the year 2021-22, based on the 2nd Advance Estimates (#), the Industry sector's contribution to the economy was recorded at 28.6%. This figure reflects the state of the industrial output in the national income during that specific period.

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May/June 2006

24. Which statement is correct regarding the trend of Agriculture's share in the country's gross income?
(A) A steady and uninterrupted increase in its total share since the 1990 reforms
(B) Remaining constant at approximately 20% of gross income since the year 2000
(C) A significant and sharp increase in its share between 2010-11 and 2021-22
(D) A consistent decline, as industrial and service sector shares have grown

Ans :

(D) A consistent decline, as industrial and service sector shares have grown
The text explicitly states that agriculture's share of the country's gross income has been on a declining trend. This decline has been accompanied by a steady increase in the shares of the industrial and service sectors. This structural transformation, where the economy diversifies away from agriculture, is a typical pattern of economic development observed in many countries.

Oct/Nov 2017

25. What percentage of the total labour force in the unorganised sector is employed in agriculture, making it the main unorganised sector?
(A) 54.6%
(B) 40.0 crore
(C) 93.4%
(D) 17.8%

Ans :

(C) 93.4%
The text highlights that agriculture is the main unorganised sector of the economy. It accounts for more than 90% of all unorganised labour. Specifically, it states that 93.4% of the total labour force in the unorganised sector is employed in agriculture, which translates to approximately 40.0 crore people being employed in this manner.

May/June 2008

26. Read the following extract:
"Agriculture plays a vital role in India's economy. 54.6% of the total workforce is engaged in agricultural and allied sector activities (Census 2011) and accounts for 17.8% of the country's Gross Value Added (GVA) for the year 2019-20 (at current prices). Given the importance of the agriculture sector, Government of India has taken several steps for its development in a sustainable manner."
Based on this extract, what is the primary paradox of the agriculture sector in India?
(A) Contributing a large share of GVA while employing a very small workforce segment
(B) Employing a majority of the workforce for a disproportionately small GVA share
(C) Having a GVA contribution and an employment share that are approximately equal
(D) Achieving sustainable development despite a consistently low contribution to GVA

Ans :

(B) Employing a majority of the workforce for a disproportionately small GVA share
The extract presents a key paradox: while the agriculture sector engages a majority of the workforce (54.6%), its contribution to the Gross Value Added (GVA) is disproportionately low (17.8% in 2019-20). This highlights issues of low productivity and underemployment within the sector, where a large number of people are dependent on a relatively small share of the economic pie.

NODIA

Oct/Nov 2013

27. The 'Pradhan Mantri Fasal Bima Yojana' (PMFBY) was launched in which year to mitigate risk in the agriculture sector?
(A) 2011
(B) 2019
(C) 2020
(D) 2016

Ans :

(D) 2016
The text mentions several government initiatives to support the agriculture sector. It explicitly states that the 'Pradhan Mantri Fasal Bima Yojana' (PMFBY), a crop insurance scheme designed to mitigate the financial risks faced by farmers due to crop failure, was launched in the year 2016. This scheme is a key part of the government's strategy for agricultural development.

May/June 2015

28. According to the Land Use Statistics 2016-17, what was the cropping intensity in India?
(A) 143.6%
(B) 42.4%
(C) 68.6%

(D) 17.8%

Ans :

(A) 143.6%
The Land Use Statistics for 2016-17 provide specific figures on land utilization. The cropping intensity, which is a measure of how many times a piece of land is cultivated in a year, is reported as 143.6%. This figure is derived from the gross cropped area (200.2 million hectares) and the net sown area (139.4 million hectares).

Oct/Nov 2012

29. Which of the following is NOT listed as a sub-sector of the Indian industrial sector?
(A) Mining and quarrying
(B) Manufacturing
(C) Trade and repairs
(D) Power, Gas, Water supply, and other utility services

Ans :

(C) Trade and repairs
The text divides India's industrial sector into four sub-sectors: i. Mining and quarrying, ii. Manufacturing, iii. Power, Gas, Water supply, and other utility services, and iv. Construction. Trade and repairs are activities associated with the services sector, not the industrial sector, which is focused on production and construction activities.

May/June 2011

30. Which sub-sector of the industry contributes the most to the total Gross Value Added (GVA), accounting for roughly 18%?
(A) Manufacturing
(B) Construction
(C) Mining and quarrying
(D) Power and Gas supply

Ans :

(A) Manufacturing
Among the sub-sectors of industry, manufacturing is the largest contributor to the Gross Value Added (GVA). The text states that manufacturing accounts for roughly 18% of the total GVA. This is significantly higher than construction (around 8%), mining and quarrying (approximately 3%), and power/gas/water supply (approximately 2%).

Oct/Nov 2020

31. The period from 1965 to 1980 in the journey of Indian industry is referred to as which phase?
(A) The period of industrial foundation
(B) The period of industrial recovery
(C) The post-reform period
(D) The period of industrial fall

Ans :

(D) The period of industrial fall
The evolution of Indian industry is categorized into four phases. The period from 1965 to 1980 is identified as Phase II, which is characterized as 'The period of industrial fall'. This phase followed the initial period of industrial foundation and preceded the period of recovery, likely reflecting a slowdown in industrial growth due to various domestic and external factors.

May/June 2022

32. What is the base year for the Index of Industrial Production (IIP) as mentioned in the text?
(A) 2004-05
(B) 2010-11
(C) 2011-12
(D) 1990-91

Ans :

(B) 2010-11
The Index of Industrial Production (IIP) is a key indicator that measures the change in the volume of production across broad industrial sectors. The text explicitly states that the base year used for calculating the IIP is 2010-11. This base year serves as a benchmark against which the production levels of subsequent years are compared to gauge growth.

Oct/Nov 2023

33. Which organization is responsible for calculating both the Index of Industrial Production (IIP) and the Index of Core Industries (ICI)?
(A) Ministry of Finance
(B) Reserve Bank of India
(C) National Statistical Office (NSO)
(D) Ministry of Commerce and Industry

Ans :

(C) National Statistical Office (NSO)
The calculation of key industrial statistics is handled by a specific government body. The text clarifies that the National Statistical Office (NSO) is the agency responsible for calculating the

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Index of Industrial Production (IIP). It also notes that the NSO is the same body that calculates the Index of Core Industries (ICI), ensuring consistency in data collection.

May/June 2016

34. Which of the following is NOT included in the list of eight core industries?
(A) Refinery products
(B) Steel
(C) Cement
(D) Automobiles

Ans :

(D) Automobiles
The text identifies eight specific industries that are considered 'core industries' due to their significant impact on the overall economy. These are refinery products, electricity, steel, coal, crude oil, natural gas, cement, and fertilisers. The automobile industry, while important, is not part of this officially designated group of eight core industries used for the ICI.

Oct/Nov 2009

35. The services sector is described as producing 'intangible or invisible goods'. Which of the following is an example of a service sector activity?
(A) Providing financial advice
(B) Weaving cotton into fabric
(C) Harvesting wheat
(D) Assembling a mobile phone

Ans :

(A) Providing financial advice
The services sector produces intangible outputs. Providing financial advice is a professional service and does not result in a physical product, thus fitting the definition perfectly. Harvesting wheat is primary sector activity, while weaving fabric and assembling a phone are secondary (manufacturing) sector activities, all of which produce tangible goods at their respective stages.

May/June 2023

36. According to the Union Budget 2019-20 excerpt, what important finding was noted about India's services sector regarding job creation?
(A) It generates jobs in direct proportion to its share in GVA.
(B) It does not generate jobs in proportion to its share in GVA.
(C) It is the largest job creator in the economy.
(D) It primarily creates jobs for unskilled labour from agriculture.

Ans :

(B) It does not generate jobs in proportion to its share in GVA.
The excerpt from the Union Budget 2019-20 highlights a critical issue. It states that an important finding is that India's services sector does not generate employment in proportion to its large share in the Gross Value Added (GVA). This contrasts with the international experience and points towards a pattern of jobless or low-employment growth in this dominant sector.

Oct/Nov 2018

37. A foreign tourist visited India in 2018 and spent a considerable amount on hotels, travel, and souvenirs. The next year, his friend visited but spent slightly less. This pattern was observed on a national scale. Based on the data for 2017-18 and 2018-19, which statement accurately reflects this situation?
(A) Tourist arrivals decreased, but foreign exchange earnings increased.
(B) Tourist arrivals and foreign exchange earnings both increased significantly.
(C) Tourist arrivals increased, but foreign exchange earnings decreased.
(D) Tourist arrivals and foreign exchange earnings both decreased.

Ans :

(C) Tourist arrivals increased, but foreign exchange earnings decreased.
The case reflects the national data provided. The number of foreign tourist arrivals in India increased from 10.4 million in 2017-18 to 10.6 million in 2018-19. However, during the same period, the foreign exchange earnings from tourism saw a decline, from US 28.7$ billion to US 27.7$ billion, matching the scenario described.

May/June 2007

38. What was the estimated value of the IT-BPM industry in 2018-19?
(A) US$ 28.7 billion
(B) US$167 billion
(C) US$ 27.7 billion
(D) US$ 181 billion

Ans :

NODIA

(D) $US181 billion
The text provides specific data on the performance of the Information Technology-Business Process Management (IT-BPM) industry. It states that the industry grew by 8.4% in 2017-18 to reach US$ 167 billion and was estimated to have reached a value of US$ 181 billion in the subsequent year, 2018-19, showing continued strong growth.

Oct/Nov 2025

39. According to the Ministry of Statistics and Programme Implementation (MoSPI) findings for 2019-20, which sub-sector had the largest share within the Service Sector's GVA?
(A) Public administration, defence & other services
(B) Trade, hotels, transport, communication and services related to broadcasting
(C) Financial, real estate & professional services
(D) Software and IT-BPM services

Ans :

(C) Financial, real estate & professional services
For the year 2019-20, MoSPI provided a breakup of the Service Sector's 55.3% share in GVA. The largest component was 'Financial, real estate & professional services', contributing 21.4%. This was followed by 'Trade, hotels, transport, etc.' at 18.3%, and 'Public administration, defence & other services' at 15.6%, highlighting the dominance of financial services.

May/June 2012

40. As per the World Investment Report 2021 by UNCTAD, what was India's rank as a recipient of Foreign Direct Investment (FDI) in 2020?
(A) 5th
(B) 1st
(C) 3rd
(D) 10th

Ans :

(A) 5th
The text cites the World Investment Report 2021, published by the UN Conference on Trade and Development (UNCTAD). According to this authoritative report, India was the 5th largest recipient of Foreign Direct Investment (FDI) globally in the year 2020. This ranking indicates India's significant position as a major destination for international investors.

Oct/Nov 2014

41. What percentage of India's total net Service Exports pertains to Software?
(A) 18.3%
(B) 21.4%
(C) 55.3%
(D) 40%

Ans :

(D) 40%
The text highlights India's global dominance in the software industry. It explicitly states that of the total net Service Exports from the country, about 40% pertains to Software. This substantial share underscores the critical role of the software and IT services industry as a primary driver of India's service export earnings and its global competitive advantage.

May/June 2021

42. Analyze the "Employment Pattern" table provided:

Industrial Category	Rural place of residence	Urban place of residence	Male	Female	Total
Primary	66.6%	9%	43.6%	62.8%	48.9%
Secondary	16%	31%	25.9%	20%	24.3%
Service/ Tertiary	17.4%	60%	30.5%	17.2%	26.8%

Which conclusion can be drawn from the data?
(A) The primary sector is the largest employer for the rural population.
(B) The tertiary sector employs the majority of the female workforce.
(C) The secondary sector is the largest employer for the urban population.
(D) The primary sector is the smallest employer for the male workforce.

Ans :

(A) The primary sector is the largest employer for the rural population.
The table shows that 66.6% of the workforce in rural areas is employed in the primary sector, which is significantly higher than the 16% in the secondary sector and 17.4% in the tertiary sector. This data clearly indicates the overwhelming dependence of the rural population on primary sector activities, mainly agriculture, for their employment and livelihood.

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Oct/Nov 2006

43. Based on the employment pattern table, which sector is the dominant employer in urban areas?
(A) Primary Sector
(B) Secondary Sector
(C) Service/Tertiary Sector
(D) A combination of Primary and Secondary

Ans :

(C) Service/Tertiary Sector
The data for 'Urban place of residence' shows the employment distribution across sectors. The Service/Tertiary sector employs 60% of the urban workforce. This is substantially higher than the 31% employed by the secondary sector and the 9% employed by the primary sector, clearly establishing the service sector as the main source of employment in urban India.

May/June 2005

44. What percentage of the total labour force is employed by the manufacturing sector?
(A) 8%
(B) 24.3%
(C) 31%
(D) 12%

Ans :

(D) 12%
The text provides specific figures on employment within the secondary sector. It states that the manufacturing sub-sector employs roughly 12% of the total labour force. This highlights the role of manufacturing in job creation, although it is seen as having a limited ability to absorb the large, relatively unskilled labour force compared to expectations.

Oct/Nov 2022

45. Which sector is identified as the second-largest employment sector in India, only after agriculture?
(A) Construction
(B) Manufacturing
(C) Retail
(D) Services

Ans :

(A) Construction
The text explicitly positions the construction sector as a major employer in the Indian economy. It is stated to be the second-largest employment sector in the country, surpassed only by the agriculture sector. This is due to its labor-intensive nature and its extensive backward and forward linkages with other industries, driving significant job creation.

May/June 2018

46. The construction industry in India employs over how many people and accounts for what percentage of total employment?
(A) 12 million people, 8%
(B) 31 million people, 8%
(C) 31 million people, 12%
(D) 40 crore people, 54.6%

Ans :

(B) 31 million people, 8%
The chapter provides specific data on the employment contribution of the construction industry. It states that the sector employs over 31 million people and is responsible for around 8% of the total employment in the country. These figures underscore its importance as a key provider of jobs, particularly for semi-skilled and unskilled labor.

Oct/Nov 2016

47. Which of the following is a defining characteristic of a 'Sunrise Sector'?
(A) Being a mature industry characterized by stable but relatively slow growth
(B) Being heavily regulated by the government, which limits outside investment
(C) Declining in relevance and output due to major technological obsolescence
(D) Displaying strong growth, high innovation, and significant public awareness

Ans :

(D) Displaying strong growth, high innovation, and significant public awareness
A 'Sunrise Sector' is defined as one that is in its early stages but exhibits immense potential for future expansion. Key characteristics include strong growth rates, a high degree of innovation, and significant public and investor interest. These sectors are expected to be major drivers of economic growth and job creation in the future.

May/June 2014

48. Which of the following is NOT listed as an example of a Sunrise Sector in the Indian economy?
(A) Traditional Textiles

NODIA

(B) Green Energy
(C) Fintech
(D) Healthcare

Ans :

(A) Traditional Textiles
The text provides a list of existing Indian industries that can be categorized as Sunrise Sectors. This list includes Green Energy, Fintech, Information Technology, Electronics, Pharmaceuticals, Automobiles, Healthcare, and others. Traditional textiles, while an important industry, is generally considered a mature or traditional sector rather than an emerging 'sunrise' one with high-tech innovation.

Oct/Nov 2007

49. An entrepreneur starts a new business focused on developing a mobile payment application that uses advanced AI for fraud detection. Her company is growing rapidly and attracting significant venture capital funding. In which category of the Indian economy would her business be classified?
(A) Quinary Sector
(B) Core Industry
(C) Sunrise Sector
(D) Unorganised Sector

Ans :

(C) Sunrise Sector
The entrepreneur's business is in the financial technology (Fintech) space, which involves high innovation and has strong growth prospects. The text explicitly lists Fintech as a 'Sunrise Sector' in the Indian economy. These sectors are characterized by their potential for significant growth, job creation, and their ability to attract investors, all of which match the case scenario.

May/June 2025

50. What is a key feature of the organised sector of an economy?
(A) Providing fixed and regular job terms with guaranteed work
(B) Having employment terms that are undefined, irregular, and lack formality
(C) Consisting of enterprises that are not officially registered with the government
(D) Relying heavily on manual labour and traditional, indigenous technologies

Ans :

(A) Providing fixed and regular job terms with guaranteed work
The organised sector is defined by its formal structure. A primary feature is that the terms of employment are fixed and regular. Employees in this sector are guaranteed work, and their jobs are stable and consistent. This contrasts sharply with the unorganised sector, where employment is often precarious and lacks formal contracts or guarantees.

Oct/Nov 2019

51. Which of the following would typically be considered part of the unorganised sector?
(A) A government hospital
(B) A legally licensed clinic
(C) A large manufacturing enterprise registered with the government
(D) A street vendor selling vegetables

Ans :

(D) A street vendor selling vegetables
The unorganised sector consists of enterprises not registered with the government and where employment terms are irregular. A street vendor fits this description perfectly. In contrast, government hospitals, licensed clinics, and registered manufacturing enterprises are all part of the organised sector, as they operate under formal government regulations and provide structured employment.

May/June 2009

52. According to the NCEUS categorization, the unorganised sector comprises unincorporated private enterprises with what characteristic?
(A) Consisting of large enterprises with more than fifty total workers on payroll
(B) Owned by individuals/households with a workforce of fewer than ten
(C) Being engaged exclusively in the production and delivery of intangible services
(D) Operating on a formal corporate basis with mandatory government registration

Ans :

(B) Owned by individuals/households with a workforce of fewer than ten
The National Commission for Enterprises in Unorganised Sector (NCEUS) provides a specific definition for the unorganised sector. It comprises all unincorporated private enterprises owned by individuals or households that are engaged in

NODIA

the production or sale of goods and services and have a total workforce of fewer than ten people, operating on a proprietary or partnership basis.

Oct/Nov 2011

53. Consider the following statements regarding the organised and unorganised sectors:
1. The organised sector is governed by acts like the Factories Act and Minimum Wages Act.
2. The unorganised sector is characterized by daily wages and is not governed by such acts.

Which of the statements is/are correct?
(A) Only 1
(B) Only 2
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(C) Both 1 and 2
The comparison table clearly shows that the organised sector is governed by various acts like the Factories Act, Bonus Act, PF Act, and Minimum Wages Act. Conversely, the unorganised sector is explicitly stated as 'Not governed by any act'. Furthermore, remuneration in the organised sector is a regular monthly salary, while in the unorganised sector, it is typically daily wages.

May/June 2010

54. Which of the following benefits is typically available to an employee in the organised sector but NOT in the unorganised sector?
(A) Daily wage payment
(B) Flexible, non-fixed working hours
(C) Employment security is not guaranteed
(D) Contribution to a Provident Fund by the employer

Ans :

(D) Contribution to a Provident Fund by the employer
The table differentiating the two sectors explicitly states that there is a 'Contribution to Provident fund by the employer' in the organised sector (marked 'Yes'), which is a form of social security. For the unorganised sector, this contribution is marked 'No'. This is a key distinguishing feature, highlighting the lack of social safety nets for unorganised workers.

Oct/Nov 2024

55. Ramesh works as a welder in a small, unregistered workshop with five other workers. He is paid daily, has no fixed working hours, and can be asked to leave if work is slow. His friend, Suresh, works for a large, registered automobile company with a fixed monthly salary and a provident fund account. How would you classify their employment?
(A) Ramesh is in the unorganised sector, and Suresh is in the organised sector.
(B) Ramesh and Suresh are both in the organised sector.
(C) Ramesh is in the organised sector, and Suresh is in the unorganised sector.
(D) Ramesh and Suresh are both in the unorganised sector.

Ans :

(A) Ramesh is in the unorganised sector, and Suresh is in the organised sector.
Ramesh's employment conditions—working in an unregistered unit with fewer than 10 workers, daily wages, and no job security—are all classic characteristics of the unorganised sector. Suresh's conditions—working for a registered company with a fixed salary and social security benefits like a provident fund—are definitive features of the organised sector.

May/June 2017

56. Identify the incorrect statement regarding the differences between the organised and unorganised sectors.
(A) Workers in the organised sector enjoy security of employment.
(B) Benefits like medical facilities and paid leave are provided in both sectors.
(C) Salary in the unorganised sector is often less than the government-prescribed minimum.
(D) Increments in salary are rare in the unorganised sector but occur periodically in the organised sector.

Ans :

(B) Benefits like medical facilities and paid leave are provided in both sectors.
The provided comparison table clearly indicates that add-on benefits and perquisites such as medical facilities, pension, and leave travel compensation are available to employees in the organised sector. For the unorganised sector, these benefits are explicitly listed as 'Not provided'. Therefore, the statement that such benefits are provided in both sectors is incorrect.

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Oct/Nov 2005

57. Assertion (A): Agriculture's share of India's gross income has been declining over the decades.
Reason (R): The industrial and service sectors have expanded at a faster rate than the agriculture sector.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The text states that agriculture's share in gross income is declining. It also explains that this is a result of the industrial and service sectors expanding faster than agriculture. Therefore, the faster growth of the other two sectors (Reason) is the direct cause for the relative decline in agriculture's share of the total economy (Assertion).

May/June 2020

58. Refer to the "Let Us Sum Up" section, point 6: "Industry's share of GVA has increased from nearly 17% in 1950–51 to 29% in 2021–22". Which phase of Indian industry's journey, mentioned earlier in the chapter, does the latter part of this period (1991 onwards) correspond to?
(A) The post-reform period
(B) The period of industrial foundation
(C) The period of industrial fall
(D) The period of industrial recovery

Ans :

(A) The post-reform period
The chapter outlines four phases of Indian industry. The period from 1991 onwards is defined as Phase IV, the post-reform period. The increase in industry's GVA share to 29% by 2021-22 reflects the industrial activity and growth that has taken place during this phase, which was characterized by economic liberalization and structural reforms.

Oct/Nov 2015

59. The text mentions, "India in 2020 was the 5th largest recipient of FDI" and "India has made a global impact by being amongst the top ten service exporter countries." Which sector is the primary driver of India's high rank as a service exporter?
(A) The construction sector
(B) The agriculture and allied sector
(C) The software and IT-BPM industry
(D) The manufacturing sector

Ans :

(C) The software and IT-BPM industry
The text directly links India's success as a service exporter to its dominance in a specific area. It states, "India's and Indians dominance in Software is globally respected. Of the total net Service Exports, about 40% pertains to Software." This clearly identifies the software and IT industry as the main engine behind India's strong performance in global service exports.

May/June 2013

60. Arrange the four phases of Indian industry in chronological order.
1. The post-reform period
2. The period of industrial fall
3. The period of industrial foundation
4. The period of industrial recovery

(A) 3, 2, 4, 1
(B) 3, 4, 2, 1
(C) 2, 3, 1, 4
(D) 4, 2, 3, 1

Ans :

(A) 3, 2, 4, 1
The chapter lists the four phases with their corresponding time periods: Phase I (1951-1965) - industrial foundation; Phase II (1965-1980) - industrial fall; Phase III (1980-1991) - industrial recovery; and Phase IV (1991 onwards) - post-reform period. The correct chronological sequence is foundation, fall, recovery, and then the post-reform era.

Oct/Nov 2021

61. A country's economic data reveals that its service sector generates 58% of the national income and provides livelihood to 55% of its workforce. Based on the definitions provided, how would this economy be classified?
(A) An agrarian economy
(B) An industrial economy
(C) A quaternary economy
(D) A service-based economy

Ans :

NODIA

(D) A service-based economy
The definition of a service-based economy is one where the tertiary (service) sector generates at least half (50%) of a country's national income and livelihood. In this case, the service sector's contribution of 58% to national income and 55% to livelihood clearly exceeds this threshold, making it a service-based economy by definition.

May/June 2024

62. Consider the following statements about the economic sectors:
1. The primary sector provides raw materials for the secondary sector.
2. The tertiary sector offers services to both primary and secondary sectors.
3. The secondary sector transforms goods through value addition.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 1, 2, and 3
(C) 2 and 3 only
(D) 1 and 3 only

Ans :

(B) 1, 2, and 3
The chapter defines the interlinkages between the sectors. The primary sector extracts raw materials used by the secondary sector. The secondary sector processes these materials, adding value. The tertiary sector provides crucial services like transport, finance, and logistics to support the operations of both the primary and secondary sectors, confirming that all three statements are correct.

Oct/Nov 2008

63. Which revolution is associated with Jute production and occurred during the 1991-2003 period?
(A) Golden Revolution
(B) Silver Fiber Revolution
(C) Golden Fibre Revolution
(D) Brown Revolution

Ans :

(C) Golden Fibre Revolution
The table of revolutions makes a clear distinction between two related "Golden" revolutions. The Golden Revolution pertains to fruits, honey, and horticulture. The Golden Fibre Revolution, which also occurred during the 1991-2003 period, is specifically associated with an increase in the production of Jute, which is known as the 'golden fibre'.

May/June 2006

64. As per the NCEUS definition, an "informal worker" can be found in the formal sector. Under what condition is this possible?
(A) When they are engaged in the sale of goods and services.
(B) When they work in a proprietary or partnership firm.
(C) When they are engaged on a permanent, full-time basis.
(D) When they do not get any employment benefits or social security.

Ans :

(D) When they do not get any employment benefits or social security.
The text provides a nuanced definition of "informal workers" from NCEUS. It states that informal workers include "workers in the formal sector who do not get any employment benefits/social security from their employers." This highlights that informality is defined by the nature of the employment relationship and lack of benefits, not just the sector of the enterprise.

Oct/Nov 2017

65. What was the share of the Services sector in India's GDP in 1950-51, and what did it increase to by 2021-22?
(A) From 33.3% to 52.8%
(B) From 14.2% to 28.6%
(C) From 51.8% to 18.6%
(D) From 39.9% to 54.8%

Ans :

(A) From 33.3% to 52.8%
The GDP contribution tables provide this data. In 1950-51, the Services sector contributed 33.3% to the economy. Over the decades, it grew to become the dominant sector, with its share reaching 52.8% in 2021-22 (as per 2nd AE). This represents a massive structural transformation of the Indian economy.

May/June 2008

66. Identify the correct statement regarding the employment of the female workforce based on the provided table.
(A) The majority of the female workforce is employed in the Service/Tertiary sector.

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(B) The majority of the female workforce is employed in the Primary sector.
(C) The Secondary sector employs more females than the Primary sector.
(D) The female workforce is equally distributed among the three sectors.

Ans :

(B) The majority of the female workforce is employed in the Primary sector.
The employment pattern table shows the sectoral distribution for different groups. Under the 'Female' column, 62.8% of the female workforce is employed in the Primary sector. This is significantly higher than the 20% in the Secondary sector and 17.2% in the Service/Tertiary sector, indicating a heavy reliance on agriculture and allied activities for female employment.

Oct/Nov 2013

67. Which of the following statements is INCORRECT based on the chapter content?
(A) The Quinary sector includes senior company executives and high-level government officials.
(B) The Round Revolution is associated with an increase in potato production.
(C) The base year for the Index of Industrial Production (IIP) is 2011-12.
(D) The construction sector is the second largest employment provider after agriculture.

Ans :

(C) The base year for the Index of Industrial Production (IIP) is 2011-12.
The text explicitly states that the base year for the Index of Industrial Production (IIP) is 2010-11. All other statements are correct as per the chapter: the Quinary sector involves top decision-makers, the Round Revolution is linked to potatoes, and the construction sector is the second-largest employer after agriculture, making this the incorrect statement.

May/June 2015

68. A policy analyst observes that a particular sector in India contributes over 54% to the GVA but struggles to create a proportional number of jobs. This sector's growth has also seen deceleration in segments like tourism and transport. Which sector is the analyst studying?
(A) Services Sector
(B) Primary Sector
(C) Secondary Sector
(D) Unorganised Sector

Ans :

(A) Services Sector
The case describes the key characteristics of the Services Sector as detailed in the chapter. The text mentions its GVA share is over 54%, it does not generate jobs in proportion to its GVA share, and an excerpt notes deceleration in tourism, transport, and communication. These facts directly point to the analyst studying the Indian Services Sector.

Oct/Nov 2012

69. Match the sector in List-I with its characteristic in List-II.
List-I (Sector)
P. Primary
Q. Secondary
R. Quaternary
S. Quinary
List-II (Characteristic)
1. Transforms one good into another by value addition
2. Highest level of decision makers
3. Direct use of natural resources
4. Known as the 'knowledge' sector
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-3, Q-1, R-4, S-2
The Primary sector involves the direct use of natural resources. The Secondary sector transforms goods, adding value. The Quaternary sector is the 'knowledge' sector, including research and teaching. The Quinary sector comprises the highest-level decision-makers like senior executives and government officials. This matching correctly aligns each sector with its defining characteristic described in the chapter.

May/June 2011

70. Consider the following statements about India's economic structure:
1. The agriculture sector's share in GVA was 17.8% in 2019-20.
2. The service sector's share in GVA was 55.3% in 2019-20.
3. The industrial sector's share of GVA

NODIA

increased from nearly 17% in 1950-51 to 29% in 2021-22.

4. Manufacturing employs roughly 20% of the labour force.

Which of the statements are correct?

(A) 1, 2, and 3 only
(B) 1 and 2 only
(C) 2, 3, and 4 only
(D) 1, 2, 3, and 4

Ans :

(A) 1, 2, and 3 only
Statement 1 is correct (17.8% GVA in 2019-20). Statement 2 is correct (55.3% GVA in 2019-20). Statement 3 is correct (GVA share rose from ~17% to 29%). Statement 4 is incorrect; the text states manufacturing employs roughly 12% of the labour force, not 20%. Therefore, only the first three statements are correct.

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CHAPTER 3

Economic Planning in India & Niti Aayog

May/June 2013

1. According to economist H. D. Dickinson, what are the core decisions made by a determinate authority in economic planning?

(A) Deciding tax rates, interest rates, and foreign exchange policies for market regulation.

(B) Determining what and how much is to be produced and to whom it is to be allocated.

(C) Focusing solely on production targets and export quotas for global competition.

(D) Allocating funds for social welfare schemes and public infrastructure projects.

Ans :

(B) Determining what and how much is to be produced and to whom it is to be allocated.

H. D. Dickinson defined economic planning as the process where a central authority makes major economic decisions. This includes determining the types and quantities of goods to be produced and deciding their distribution among the population. This is based on a comprehensive survey of the entire economic system, signifying a conscious and deliberate control over the economy.

Oct/Nov 2018

2. How did the National Planning Committee of 1938 define planning under a democratic system in India?

(A) As the technical coordination of economic activities by experts, aligned with social objectives set by national representative bodies.

(B) As a government-led process to maximize industrial output and national revenue through centralized commands and production quotas.

(C) As a mechanism to control consumption and investment to achieve price stability and a favorable balance of trade through fiscal policy.

(D) As a state-enforced system to distribute resources equally among all citizens, irrespective of their economic contribution or social status.

Ans :

(A) As the technical coordination of economic activities by experts, aligned with social objectives set by national representative bodies.

The National Planning Committee (1938) viewed planning in a democratic India as a technical coordination exercise. It involved disinterested experts managing consumption, production, investment, trade, and income distribution. This was to be guided by social objectives set by national representative bodies, encompassing economic, cultural, and spiritual values to improve the overall quality of life.

May/June 2005

3. Which country is credited with being the first to begin regional planning in 1916?

(A) The Soviet Union

(B) India

(C) The United States

(D) The United Kingdom

Ans :

(C) The United States

The concept of regional planning was first initiated in the United States in 1916. This form of planning, which targets a wide geographical area comprising rural and/or urban communities, was considered a huge success in achieving its well-defined goals. It focuses on optimal space utilization and the distribution of human activities within a specific region.

Oct/Nov 2024

4. Which nation provided the world's first taste of national planning with its five-year plan from 1928 to 1933?

(A) The United States

(B) China

(C) Germany

(D) The Soviet Union

Ans :

NODIA

(D) The Soviet Union

The Soviet Union was the pioneer of national planning, implementing its first five-year plan from 1928 to 1933. This model of comprehensive, nationwide economic strategy influenced many countries, including India, which recognized the need for a national planning approach to address its developmental challenges, particularly abject poverty and the need for equitable growth and resource mobilization.

May/June 2021

5. Which of the following is NOT listed as a broad objective of economic planning in India?

(A) Economic Growth
(B) Poverty Alleviation
(C) Complete Autarchy
(D) Modernisation of the economy

Ans :

(C) Complete Autarchy

The objectives of Indian economic planning include sustained economic growth, poverty alleviation, employment generation, social justice, modernisation, and achieving a self-reliant economy. Self-reliance was defined as combating a subservient position in the global economy, not as autarchy, which implies complete economic isolation. The goal was to build internal strength without entirely cutting off from the world.

Oct/Nov 2007

6. What does the objective 'Modernisation of the economy' in Indian planning primarily refer to?

(A) Exclusively focusing on the growth of the service sector and digital technologies.
(B) Industrialisation of the conventional sector and changes in social outlook, such as gender equality.
(C) Preserving traditional agricultural practices to maintain cultural heritage and rural employment.
(D) Increasing government control over all sectors to ensure centrally-directed modernisation.

Ans :

(B) Industrialisation of the conventional sector and changes in social outlook, such as gender equality.

In the context of Indian planning, modernisation encompassed two key aspects. Firstly, it involved the industrialisation of traditional sectors like agriculture through the integration of modern farming and dairying practices. Secondly, it referred to progressive changes in social outlook, such as recognizing equal rights for women, thereby aiming for a broader societal transformation beyond just economic aspects.

May/June 2016

7. The Planning Commission of India, established in 1950, was what type of body?

(A) A statutory entity created by an Act of Parliament with a fixed five-year term.
(B) A constitutional body with powers defined in the Constitution, similar to the Finance Commission.
(C) An autonomous body directly accountable to the President of India, with independent funding.
(D) A non-statutory entity created by a cabinet resolution, with the Prime Minister as ex-officio Chairman.

Ans :

(D) A non-statutory entity created by a cabinet resolution, with the Prime Minister as ex-officio Chairman.

The Planning Commission, responsible for planning in India from 1950, was not a statutory body. It was established by a resolution of the Union Cabinet. Its structure included the Prime Minister serving as the ex-officio Chairman and a full-time Deputy Chairman who was in charge of the commission's day-to-day functioning, giving it significant authority despite its non-statutory nature.

Oct/Nov 2022

8. Which body was responsible for approving the plans formulated by the Planning Commission for implementation?

(A) The National Development Council (NDC)
(B) The Parliament of India
(C) The Union Cabinet
(D) The Ministry of Finance

Ans :

(A) The National Development Council (NDC)

The plans prepared by the Planning Commission, which provided a broad framework for developmental and investment requirements, required approval before implementation. This approval was granted by the National Development Council (NDC). The NDC, chaired

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by the Prime Minister and including Chief Ministers of states, ensured a collaborative approach between the Centre and states in the planning process.

May/June 2009

9. The Government of India replaced the Planning Commission with NITI Aayog in 2015 based on what primary logic?

(A) The need for a more powerful body with constitutional authority to allocate financial resources.
(B) A political decision to rename the institution while preserving its core functions of centralized planning.
(C) The shift to a market-dominated economy and the need to empower states in the federal structure.
(D) The requirement to align with planning standards set by the IMF and World Bank for developing nations.

Ans :

(C) The shift to a market-dominated economy and the need to empower states in the federal structure.
The establishment of NITI Aayog in 2015 was a significant reform. The underlying logic was that the Indian economy had transitioned to a market-dominated system, making the old model of centralized resource allocation less relevant. Furthermore, there was a growing need to prioritize the rights and roles of states, necessitating a new institutional structure with more dynamic purposes.

Oct/Nov 2011

10. What was the primary focus of the First Five-Year Plan (1951-1956)?

(A) Agriculture, including irrigation and electricity developments.
(B) Rapid industrialisation and development of heavy industries.
(C) Information technology and development of the services sector.
(D) Poverty eradication through direct cash transfer programs.

Ans :

(A) Agriculture, including irrigation and electricity developments.
The First Five-Year Plan was formulated in the backdrop of significant challenges, including large-scale food grain imports in 1951 and rising prices. Consequently, the plan's strategy prioritized the agricultural sector to achieve food self-sufficiency and stabilize the economy. This focus also extended to crucial supporting areas like irrigation and power projects to boost agricultural productivity.

May/June 2018

11. The growth strategy of the Second Five-Year Plan (1956-1961), which emphasized fast industrialisation, was devised by whom?

(A) H. D. Dickinson
(B) Dr. Manmohan Singh
(C) D. R. Gadgil
(D) Professor P. C. Mahalanobis

Ans :

(D) Professor P. C. Mahalanobis
The Second Five-Year Plan marked a strategic shift towards rapid industrialisation, with a specific concentration on heavy industries and capital goods. This influential strategy, often referred to as the Mahalanobis model, was devised by the renowned statistician Professor P. C. Mahalanobis. It aimed to build a strong industrial base for the Indian economy, assuming a closed economy model.

Oct/Nov 2025

12. Which Five-Year Plan was severely affected by two wars (with China in 1961-62 and Pakistan in 1965-66) and a major drought?

(A) Second Plan
(B) Third Plan
(C) Fourth Plan
(D) Fifth Plan

Ans :

(B) Third Plan
The Third Five-Year Plan (1961-1965) faced unprecedented challenges that severely hampered its progress. The plan was disrupted by two major conflicts: the war with China in 1961-62 and the war with Pakistan in 1965-66. In addition, a catastrophic drought-led famine in 1965-66 further strained resources, leading to a significant drain and diversion of finances.

May/June 2007

13. The period from 1966 to 1969, characterized by three successive Annual Plans instead of a

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regular Five-Year Plan, is commonly referred to as what?
(A) The Great Leap Forward
(B) The Planning Crisis
(C) The "Plan Holiday"
(D) The Economic Stagnation

Ans :

(C) The "Plan Holiday"
Due to the country's poor financial situation following the wars and drought during the Third Plan period, the government opted for three consecutive Annual Plans from 1966 to 1969 instead of launching the Fourth Plan immediately. This period of discontinuity in the regular five-year planning process is widely known as the "Plan Holiday."

Oct/Nov 2014

14. The Fourth Five-Year Plan (1969-1974) was based on the Gadgil strategy. What were the core concepts of this strategy?
(A) Liberalisation, Privatisation, and Globalisation.
(B) Rapid industrialisation and development of capital goods.
(C) Poverty alleviation through the 'Garibi Hatao' slogan.
(D) Growth with stability and progress toward self-sufficiency.

Ans :

(D) Growth with stability and progress toward self-sufficiency.
The Fourth Plan was formulated based on the Gadgil strategy, which laid special emphasis on the twin concepts of 'growth with stability' and 'progress toward self-sufficiency.' This approach aimed to ensure that economic expansion did not lead to inflationary pressures and that the nation continued to reduce its dependence on foreign aid and resources, building on earlier plan objectives.

May/June 2019

15. A key feature of the Fourth Plan period, which remained unchanged until the early 1990s, was the first step towards what?
(A) 'Nationalisation' of banks and greater economic control.
(B) Disinvestment in Public Sector Undertakings.
(C) Introduction of a flexible exchange rate system.
(D) Deregulation of the industrial licensing policy.

Ans :

(A) 'Nationalisation' of banks and greater economic control.
The Fourth Plan period was marked by several notable economic features. Among the most significant was the initiation of bank nationalisation, which represented a move towards greater government control and regulation over the economy. This, along with frequent high inflation and rising fiscal deficits, characterized the economic environment of the time and persisted until the reforms of the 1990s.

Oct/Nov 2006

16. The Fifth Five-Year Plan (1974-79) focused on poverty eradication and self-sufficiency, and it saw the launch of which major programme in 1975?
(A) The Jawahar Rojgar Yojana (JRY)
(B) The Twenty-point Programme
(C) The Integrated Rural Development Programme (IRDP)
(D) The National Food for Work Programme

Ans :

(B) The Twenty-point Programme
A central theme of the Fifth Plan was poverty eradication. To this end, the government launched the Twenty-point Programme in 1975. This programme sensationalized the discourse on poverty alleviation and represented a direct government initiative aimed at improving the living standards of the poor. The planning process during this period became increasingly politicized, with this programme as a centerpiece.

May/June 2023

17. Which political event severely disrupted the planning phase of the Fifth Plan, leading to a change in government in 1977?
(A) The Indo-Pak War
(B) The declaration of Emergency
(C) The oil shock of 1973
(D) The failure of the Green Revolution

Ans :

(B) The declaration of Emergency
The Fifth Plan's execution was severely disrupted by major political turbulence. The declaration of the Emergency, followed by a change of

NODIA

government at the Centre, created significant instability. The Janata Party's landslide victory in the 1977 elections led to a re-evaluation and interruption of the ongoing planning process, highlighting the vulnerability of economic planning to political shifts.

Oct/Nov 2010

18. The Sixth Five-Year Plan (1980-85) was introduced with the motto 'Garibi Hatao' and pioneered which specific approach to poverty alleviation?
(A) The "target group" approach
(B) The trickle-down approach
(C) The universal basic income approach
(D) The market-led approach

Ans :

(A) The "target group" approach
The Sixth Plan, under the banner of 'Garibi Hatao' (alleviate poverty), prioritized socioeconomic infrastructure in rural areas. A key innovation of this plan was the introduction of the "target group" approach. This involved designing and implementing specific national-level programmes and strategies, such as the Integrated Rural Development Programme (IRDP), directed at particular populations to address poverty and regional inequities more effectively.

May/June 2012

19. What was a major negative consequence of the higher economic growth rates experienced during the Seventh Five-Year Plan (1985-90)?
(A) A significant decline in agricultural production.
(B) A sharp increase in unemployment rates across the country.
(C) Severe fiscal imbalances and a deteriorating balance of payments.
(D) Stagnation in the industrial and manufacturing sectors.

Ans :

(C) Severe fiscal imbalances and a deteriorating balance of payments.
Although the Indian economy witnessed higher growth during the 1980s, especially in the latter half corresponding to the Seventh Plan, this growth came at a significant cost. It was financed through heavy government borrowing, including from foreign sources, leading to severe fiscal imbalances. By the end of the plan, India's balance of payments condition had deteriorated significantly.

Oct/Nov 2016

20. The Jawahar Rojgar Yojana (JRY) was introduced in 1989 during the Seventh Plan with what primary objective?
(A) To provide skill development training to urban youth.
(B) To promote self-employment through micro-financing.
(C) To ensure food security for all citizens.
(D) To provide wage employment to the rural poor.

Ans :

(D) To provide wage employment to the rural poor.
The Seventh Plan emphasized job creation alongside rapid food grain production and productivity. As part of this focus, the Jawahar Rojgar Yojana (JRY) was launched in 1989. The specific goal of this large-scale programme was to generate meaningful wage employment opportunities for the unemployed and underemployed poor in rural areas, thereby directly addressing rural poverty.

May/June 2014

21. What was the primary reason for the delay in launching the Eighth Plan, leading to the implementation of two Annual Plans for 1990-91 and 1991-92?
(A) A catastrophic natural disaster.
(B) The focus on constitutional amendments.
(C) A 'fast-changing political environment at the Centre'.
(D) A global consensus to pause five-year planning.

Ans :

(C) A 'fast-changing political environment at the Centre'.
The execution of the Eighth Plan was prevented by a confluence of factors, chief among them being the 'fast-changing political environment at the Centre' which created instability. This, combined with massive economic changes globally and severe budget imbalances from the late 1980s, led the new government that took office in June 1991 to delay the five-year plan.

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Oct/Nov 2021

22. The Eighth Five-Year Plan (1992-97) was implemented in the context of which major economic event?
(A) The nationalisation of major commercial banks.
(B) The beginning of economic reforms in July 1991.
(C) The global oil crisis of the 1970s.
(D) The establishment of the World Trade Organization.

Ans :

(B) The beginning of economic reforms in July 1991.
The Eighth Plan was launched under uniquely challenging economic circumstances. It followed the severe economic crisis of 1991, which was characterized by a worsening balance of payments, high fiscal deficits, and unsustainable inflation. The plan's implementation began just after the initiation of major structural adjustment and macro-stabilisation measures, commonly known as the economic reforms of July 1991.

May/June 2025

23. Which of the following was a key innovative suggestion of the Eighth Plan, representing a shift in planning philosophy?
(A) Increasing the role of the state in all sectors of the economy.
(B) Focusing exclusively on heavy industries for capital formation.
(C) Centralizing all planning decisions to ensure uniform development.
(D) Suggesting 'Market-based' development and a greater role for the private sector.

Ans :

(D) Suggesting 'Market-based' development and a greater role for the private sector.
The Eighth Plan was the first to critically examine the macroeconomic strategies of the past. A major innovative suggestion was to redefine the state's role and advise 'market-based' development in areas that could afford it. This meant advocating for a greater role for the private sector in the economy, a significant departure from the previous state-dominated planning philosophy.

NODIA

Oct/Nov 2019

24. The Ninth Five-Year Plan (1997-2002) was implemented during an overall economic 'slowdown' caused by which external event?
(A) The South-East Asian Financial Crisis (1996–97)
(B) The Dot-com bubble burst
(C) The Gulf War
(D) The dissolution of the Soviet Union

Ans :

(A) The South-East Asian Financial Crisis (1996–97)
The Ninth Plan was launched at a time when the Indian economy was experiencing a general slowdown. A major external factor contributing to this was the South-East Asian Financial Crisis of 1996-97. Despite this challenging environment and ongoing criticism of liberalization, the plan aimed for an ambitious high growth rate and introduced time-bound social objectives.

May/June 2010

25. The Ninth Plan focused on seven designated Basic Minimum Services (BMS). Which of the following was NOT part of the BMS?
(A) Safe drinking water
(B) Universalisation of primary education
(C) Urban metro rail connectivity
(D) Public housing assistance to the homeless poor

Ans :

(C) Urban metro rail connectivity
The Ninth Plan introduced a focus on seven Basic Minimum Services (BMS) to achieve complete population coverage in a timely manner. These services included safe drinking water, primary health services, universal primary education, public housing for the homeless poor, nutritional support for children, connectivity for all villages, and streamlining the public distribution system. Urban metro connectivity was not part of this list.

Oct/Nov 2017

26. Which of the following was a significant shift in the planning policy mindset introduced during the Tenth Five-Year Plan (2002-07)?
(A) Setting 'monitorable targets' for select indicators of development for the first time.
(B) Declaring the industrial sector as the prime moving force (PMF) of the economy.
(C) Reducing the states' role in planning to

centralize policy formation.
(D) Abandoning the goal of doubling per capita income.

Ans :

(A) Setting 'monitorable targets' for select indicators of development for the first time.
The Tenth Plan marked a significant evolution in India's planning approach. For the first time, the plan went beyond broad objectives to set specific 'monitorable targets' for eleven selected indicators of development. This applied to both the Centre and the states, introducing a new level of accountability and a results-oriented framework into the planning process.

May/June 2017

27. The Eleventh Five-Year Plan emphasized the idea of "inclusive growth." What was a major concern for the Planning Commission during this plan?
(A) A weakening rupee making essential imports, such as oil and capital goods, too expensive.
(B) Decreased global oil prices reducing revenues for public sector oil and gas exploration companies.
(C) Excessive foreign direct investment in the retail sector causing instability and political backlash.
(D) A higher inflation rate (above 6%) leading to tighter credit policy and lower private investment.

Ans :

(D) A higher inflation rate (above 6%) leading to tighter credit policy and lower private investment.
While the Eleventh Plan aimed for high and "inclusive growth," the Planning Commission expressed several concerns in its approach paper. A primary worry was that high inflation, rising above 6% per cent, would compel the central bank to tighten credit policy. This, in turn, would discourage investment in the economy, potentially lowering production and hindering the achievement of growth objectives.

Oct/Nov 2005

28. What was the targeted GDP growth rate for the Twelfth Five-Year Plan (2012-17)?
(A) 7%
(B) 9%
(C) 8%
(D) 10%

Ans :

(B) 9%
The Draft Approach Paper for the Twelfth Plan set an ambitious target for economic expansion. It aimed for an average GDP growth rate of 9% over the plan period. This high growth target was linked to other objectives, such as achieving 4% average growth in the agriculture sector and managing the increasing energy demands of a rapidly growing economy.

May/June 2020

29. According to the Twelfth Plan's approach paper, what level was India's petroleum import dependency anticipated to reach?
(A) 50%
(B) 65%
(C) 80%
(D) 95%

Ans :

(C) 80%
The approach paper for the Twelfth Plan highlighted the substantial challenge of meeting the energy demands required for rapid growth. It noted that India's reliance on energy imports would inevitably grow. Specifically for petroleum, the paper anticipated that import dependency, which was already high, would increase to reach 80% during the Twelfth Plan period.

Oct/Nov 2015

30. Read the table excerpt below and answer the question that follows.

Five-Year Plan	Period	Target Growth Rate	Actual Growth Rate
First Plan	1951-1956	2.1%	3.6%
Second Plan	1956-1961	4.5%	4.27%
Third Plan	1961-1965	5.6%	2.4%

Based on the data, which statement is correct?
(A) All three plans failed to meet their target growth rates.
(B) The Third Plan was the only one to exceed its target growth rate.
(C) The Second Plan had the largest negative deviation from its target.
(D) The First Plan's actual growth rate significantly surpassed its target.

Ans :

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(D) The First Plan's actual growth rate significantly surpassed its target.

The table clearly shows that the First Plan aimed for a 2.1% growth rate but achieved 3.6%, significantly exceeding its target. The Second Plan narrowly missed its target (4.27% actual vs. 4.5% target). The Third Plan experienced a massive shortfall, achieving only 2.4% against a target of 5.6%, making it the worst performer among the three.

May/June 2024

31. What was a key achievement of the Second Five-Year Plan in terms of industrial and infrastructure development?

(A) Construction of major hydroelectric power and steel plants.
(B) The nationwide launch of the Green Revolution to achieve food self-sufficiency.
(C) The establishment of the first five Indian Institutes of Technology (IITs) for technical education.
(D) The nationalisation of 14 major commercial banks to direct credit to priority sectors.

Ans :

(A) Construction of major hydroelectric power and steel plants.

The Second Plan's focus on heavy industrialisation translated into concrete achievements. During this period, several hydroelectric power plants were built to meet growing energy needs. Furthermore, three large-scale steel plants were established in Bhilai, Durgapur, and Rourkela with foreign collaboration, laying the foundation for India's industrial base, which was a core objective of the plan.

Oct/Nov 2008

32. During which plan period did the nationalisation of 14 major Indian banks and the Green Revolution take place?

(A) Third Plan
(B) Fifth Plan
(C) Fourth Plan
(D) Sixth Plan

Ans :

(B) Fifth Plan

The table on plan assessments indicates that during the Fifth Plan (1974-1979), the Indira Gandhi administration nationalised 14 major Indian banks. This period also saw the Green Revolution boosting agriculture. These events occurred under the plan's dual emphasis on poverty reduction and self-reliance, with bank nationalisation aiming to direct credit towards priority sectors and agriculture.

May/June 2006

33. The strategy for the Sixth Five-Year Plan was established under the phrase 'Garibi Hatao'. What was its actual growth rate?

(A) 3.3%
(B) 5.5%
(C) 5.2%
(D) 6.0%

Ans :

(B) 5.5%

The Sixth Plan (1980-1985), with its 'Garibi Hatao' motto and 'target group' strategy, was successful in terms of economic expansion. The plan aimed to combat poverty and began broadening family planning initiatives. According to the assessment table, most of its objectives were met, and the economy achieved an actual growth rate of 5.5% during this period.

Oct/Nov 2013

34. Identify the correct pair of a Five-Year Plan and its corresponding theme or key objective.

(A) Twelfth Plan (2012-17) - "Faster, more inclusive, and sustainable growth"
(B) Eighth Plan (1992-97) - Garibi Hatao
(C) Ninth Plan (1997-2002) - Growth with stability and self-reliance
(D) Seventh Plan (1985-90) - Indicative Planning

Ans :

(A) Twelfth Plan (2012-17) - "Faster, more inclusive, and sustainable growth"

The underlying theme of the Twelfth Five-Year Plan was "Faster, more inclusive, and sustainable growth," reflecting a comprehensive approach to development. 'Garibi Hatao' was associated with the Sixth Plan, 'Growth with stability and self-reliance' with the Fourth Plan, and the concept of indicative planning was prominently introduced in the Eighth Plan, not the seventh.

May/June 2008

35. What was the primary objective of the Ninth Five-Year Plan (1997-2002)?

(A) Rapid expansion in agricultural and associated industries.

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(B) Achieving quicker and more inclusive growth.
(C) "Growth with justice and equity."
(D) Boosting national income by more than 5% per annum.

Ans :

(C) "Growth with justice and equity."
The primary objective of the Ninth Five-Year Plan was explicitly stated as "growth with justice and equity." This theme underscored the plan's focus on ensuring that the benefits of economic growth were distributed fairly across society. It also emphasized seven Basic Minimum Services (BMS) to achieve time-bound social objectives alongside economic targets, reinforcing this principle of equitable development.

Oct/Nov 2012

36. Which plan had the objective of reducing the poverty rate by 5 percentage points and eliminating gender inequalities in literacy and wage rates by at least 50% by 2007?
(A) Eighth Plan
(B) Ninth Plan
(C) Eleventh Plan
(D) Tenth Plan

Ans :

(D) Tenth Plan
The Tenth Plan (2002-2007) had very specific and monitorable social and economic objectives. Among its top priorities were not only achieving strong growth but also reducing the poverty rate by 5 percentage points by 2007. It also aimed to eliminate gender inequalities in literacy and wage rates by at least 50% by the end of the plan period.

May/June 2015

37. The Eleventh Plan (2007-2012) achieved a GDP growth of 7.5%. What was its target for GDP growth?
(A) 7.1%
(B) 8.1%
(C) 9%
(D) 8%

Ans :

(C) 9%
The Eleventh Plan aimed for "quicker and more inclusive growth." The Planning Commission had set an ambitious GDP growth target of 9% for this period. However, due to various factors, including concerns about inflation and the global financial crisis, the actual achievement was 7.5%, which was significant but still fell short of the original target.

Oct/Nov 2020

38. According to the overall assessment of five-year plan performance, how many of the twelve plans experienced lower growth rates than expected?
(A) Three
(B) Seven
(C) Five
(D) Ten

Ans :

(B) Seven
The assessment of the five-year plans reveals a mixed record on achieving growth targets. The text explicitly states that "Seven of the twelve five-year plans experienced lower growth rates than expected." This indicates that while planning contributed to development, meeting the projected growth rates consistently remained a significant challenge throughout India's planning era, with frequent shortfalls.

May/June 2011

39. What has been a significant achievement of India's economic planning in the industrial sector?
(A) Becoming the world's largest exporter of consumer electronics.
(B) Achieving complete self-sufficiency in all types of machinery.
(C) Eliminating the private sector from heavy engineering industries.
(D) Making major strides toward capital equipment self-sufficiency.

Ans :

(D) Making major strides toward capital equipment self-sufficiency.
A major success of India's planned industrial development has been the significant progress made toward self-sufficiency in capital equipment. Through the expansion of iron and steel, machine tool, and heavy engineering industries, India developed a strong domestic manufacturing base. Engineering items now constitute a significant portion of India's merchandise exports, reflecting this industrial capability.

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Oct/Nov 2009

40. A state government is designing a new long-term policy for sustainable agriculture and water management. It requires strategic and technical assistance to align its policy with national objectives and best practices. Which entity is designed to provide this kind of support to the state?
(A) The NITI Aayog
(B) The National Development Council (NDC)
(C) The Ministry of Finance
(D) The Planning Commission

Ans :

(A) The NITI Aayog
NITI Aayog was established as the Government of India's top policy "Think Tank." Its mandate includes offering directional and policy suggestions and providing relevant technical assistance to both the Centre and States. For a state designing a long-term strategic policy, NITI Aayog is the designated central platform to provide the necessary expertise and ensure alignment with national goals.

May/June 2022

41. NITI Aayog's creation is focused on two main hubs. What are they?
(A) The Finance Hub and the Infrastructure Hub.
(B) The State Coordination Hub and the Central Policy Hub.
(C) The Team India Hub and the Knowledge and Innovation Hub.
(D) The Federalism Hub and the Technology Hub.

Ans :

(C) The Team India Hub and the Knowledge and Innovation Hub.
The structure of NITI Aayog is centered on two key hubs that reflect its primary responsibilities. The 'Team India Hub' is responsible for coordinating the involvement of states with the central government, fostering cooperative federalism. The 'Knowledge and Innovation Hub' serves to strengthen NITI Aayog's think-tank capabilities, promoting research, expertise, and innovation in policy-making.

Oct/Nov 2023

42. Who is the chairperson of the NITI Aayog?
(A) The Prime Minister
(B) The Finance Minister
(C) The Vice Chairperson of NITI Aayog
(D) The President of India

Ans :

(A) The Prime Minister
The governing structure of NITI Aayog is headed by the Prime Minister of India, who serves as its ex-officio Chairperson. This arrangement ensures that the institution has the highest level of political authority and is central to the government's policy-making and strategic vision. The governing council also includes chief ministers of states, reinforcing its federal character.

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May/June 2016

43. Which of the following is a key function of NITI Aayog?
(A) To allocate five-year plan funds to various states and ministries.
(B) To approve the Union Budget before it is presented in Parliament.
(C) To directly implement development projects at the district level.
(D) To promote cooperative federalism through organized support programmes with the states.

Ans :

(D) To promote cooperative federalism through organized support programmes with the states.
A core function of NITI Aayog is to foster cooperative federalism. It does this by creating structured support mechanisms and processes with the states. This is based on the principle that a strong nation is built on strong states, and it marks a significant shift from the top-down approach of the erstwhile Planning Commission to a more collaborative one.

Oct/Nov 2018

44. Consider the following statements regarding the functions of NITI Aayog:
1. Create procedures for developing viable plans at the village level and aggregating them upwards.
2. Provide a forum for the resolution of cross-sectoral and cross-departmental issues.
3. Directly disburse funds to states for non-plan revenue deficiencies.

Which of the above statements are correct?
(A) 1 and 2 only

(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 and 2 only
NITI Aayog is mandated to foster bottom-up planning by creating procedures for plan development at the village level. It also serves as a crucial platform to resolve inter-departmental and inter-sectoral issues to expedite development. However, it does not disburse funds for revenue deficits, a function associated with the Finance Commission, which the Planning Commission was often accused of usurping.

May/June 2023

45. Which of the following is NOT a listed function of NITI Aayog?
(A) To ensure national security considerations are included in economic strategy.
(B) To maintain a cutting-edge Resource Centre and repository for research on good governance.
(C) To act as a final authority on resource allocation between the centre and states.
(D) To concentrate on technological advancement and capacity building for programme execution.

Ans :

(C) To act as a final authority on resource allocation between the centre and states.
NITI Aayog functions as a think tank, providing policy guidance, fostering cooperative federalism, and focusing on knowledge and innovation. It is not an authority for financial allocation, which is the domain of the Finance Ministry and the Finance Commission. The shift from the Planning Commission to NITI Aayog was specifically intended to separate strategy from resource allocation.

Oct/Nov 2009

46. Assertion (A): The five-year planning model of the Planning Commission became inconsistent with India's development strategy post-1991.
Reason (R): The post-1991 economic reform era saw a transition to a market-driven economy and the rise of states' developmental roles, which conflicted with the centralized planning framework.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that the Planning Commission's model became outdated is true. The reason correctly explains why: the 1991 reforms ushered in a market-oriented economy, and the federal structure saw states becoming more assertive. The Commission's centralized authority over resource allocation created a conflict with these two major sources of economic dynamism—the private sector and the states—making its framework unsuitable.

May/June 2007

47. How does NITI Aayog aim to promote accountability in governance, a challenge faced by the Planning Commission?
(A) By establishing a Development Monitoring and Evaluation Office (DMEO) for real-time data collection.
(B) By conducting detailed financial audits of state treasuries and publishing the results annually.
(C) By creating a system of discretionary grants to reward or penalize poorly performing ministries.
(D) By publishing a comprehensive post-facto review of all central schemes five years after their conclusion.

Ans :

(A) By establishing a Development Monitoring and Evaluation Office (DMEO) for real-time data collection.
To address the lack of accountability in the previous system, NITI Aayog established the Development Monitoring and Evaluation Office (DMEO). This office collects real-time performance data from various ministries. This allows for outcome-based monitoring and assessment, which can be used to establish accountability and improve performance at the highest policymaking levels, unlike the post-facto reviews of the past.

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Oct/Nov 2025

48. What is the role of NITI Aayog in promoting competitive federalism among states?
(A) By mandating uniform policies for all states to follow.
(B) By developing performance-based rankings of states across many verticals.
(C) By allocating additional funds to states that compete better.
(D) By dissolving state-level planning boards to centralize strategic oversight.

Ans :

(B) By developing performance-based rankings of states across many verticals.
To foster a culture of healthy competition among states, NITI Aayog develops and publishes performance-based rankings across various sectors. These indices and rankings create a competitive spirit, encouraging states to improve their performance in areas like health, education, and water management. Best practices from leading states are then identified and replicated, promoting overall national development.

May/June 2012

49. To boost the innovation ecosystem among youth, a central body has established over 9,500 labs in schools across India as of June 2022, along with 68 incubation centres for start-ups. Which initiative, part of NITI Aayog, is responsible for this?
(A) The Team India Initiative
(B) The Atal Innovation Mission
(C) The Strategy for New India @75
(D) The National Skill Development Mission

Ans :

(B) The Atal Innovation Mission
The scenario describes the work of the Atal Innovation Mission (AIM), which is a flagship initiative of NITI Aayog. AIM is tasked with promoting a culture of innovation and entrepreneurship. Its key programs include establishing Atal Tinkering Labs (ATLs) in schools to foster curiosity and creativity, and Atal Incubation Centres (AICs) to support and nurture start-ups.

Oct/Nov 2014

50. NITI Aayog's 'Strategy for New India @75', published in December 2018, is divided into four main sections. Which of the following is NOT one of those sections?
(A) Globalisation
(B) Drivers
(C) Infrastructure
(D) Inclusion

Ans :

(A) Globalisation
The comprehensive 'Strategy for New India @75' document is structured into four distinct sections. These sections are: Drivers (focusing on engines of economic performance), Infrastructure (physical foundations of growth), Inclusion (investing in the capabilities of all citizens), and Governance (streamlining structures and processes). Globalisation, while a relevant concept, is not one of the four main sectional divisions.

May/June 2019

51. What GDP growth rate was targeted in the 'Drivers' section of the 'Strategy for New India @75' to make India a $4 trillion economy by 2022-23?
(A) About 6% on average
(B) About 7% on average
(C) About 8% on average
(D) About 9% on average

Ans :

(C) About 8% on average
The 'Drivers' section of the strategy document lays out ambitious economic targets. A key recommendation was to accelerate the economy to achieve an average GDP growth rate of about 8%. This sustained high growth was deemed necessary to expand the economy to a size of $4 trillion by the fiscal year 2022-23.

Oct/Nov 2006

52. The 'Strategy for New India @75' recommended increasing the tax-to-GDP ratio to what level by 2022-23 to enhance public investment?
(A) At least 15%
(B) At least 18%
(C) At least 20%
(D) At least 22%

Ans :

(D) At least 22%
To fund enhanced public investment, the strategy document emphasized the need for improved revenue mobilization. It specifically

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recommended a significant increase in the tax-to-GDP ratio. The target was to raise it from 17% in 2018 to at least 22% of GDP by the fiscal year 2022-23, providing more resources for development.

May/June 2021

53. What was the target for the export of goods and services by 2022-23 as per the 'Strategy for New India @75'?
(A) $500 billion
(B) $650 billion
(C) $800 billion
(D) $1 trillion

Ans :

(C) $800 billion
A key recommendation in the 'Drivers' section of the 'Strategy for New India @75' was to significantly boost India's global trade footprint. The strategy set a clear target to raise the export of goods and services to $800 billion a year by 2022-23. This was a substantial increase from the $478 billion level recorded in 2018.

Oct/Nov 2010

54. The 'Strategy for New India @75' recommends replacing the Commission on Agricultural Costs and Prices (CACP) with what body?
(A) A National Farmers' Commission
(B) An Agricultural Tribunal
(C) A Federal Agriculture Board
(D) A Ministry of Agri-pricing

Ans :

(B) An Agricultural Tribunal
As part of the reforms suggested for the agriculture sector under the 'Drivers' section, the strategy document proposed a significant institutional change. It recommended the replacement of the existing Commission on Agricultural Costs and Prices (CACP), which advises on minimum support prices, with a new body, namely an Agricultural Tribunal, to handle pricing and other related issues.

May/June 2005

55. What recommendation was made under the 'Infrastructure' section of the 'Strategy for New India @75' regarding freight transport?
(A) To nationalize all private freight companies to create a single state-owned logistics entity.
(B) To phase out rail freight entirely in favor of an expanded national highway network.
(C) To build dedicated freight corridors connecting major ports exclusively for export-oriented goods.
(D) To double freight's share via coastal shipping and inland waterways.

Ans :

(D) To double freight's share via coastal shipping and inland waterways.
The infrastructure section of the strategy aimed to create an efficient multi-modal transport system. A specific recommendation was to double the share of freight that is moved via coastal shipping and inland waterways. This shift from road and rail was intended to reduce logistics costs and congestion, with initial viability gap funding proposed to develop the necessary infrastructure.

Oct/Nov 2022

56. Under the 'Inclusion' section of the 'Strategy for New India @75', what was the target for establishing Atal Tinkering Labs by 2020?
(A) At least 10,000
(B) At least 5,000
(C) At least 15,000
(D) At least 20,000

Ans :

(A) At least 10,000
To upgrade the quality of school education and create a ground-level innovation ecosystem, the 'Inclusion' section of the strategy set a specific, ambitious target. It recommended the establishment of at least 10,000 Atal Tinkering Labs by the year 2020 to provide students with opportunities for hands-on learning and innovation, fostering a scientific temper from a young age.

May/June 2018

57. Which of the following is a key recommendation under the 'Governance' section of the 'Strategy for New India @75'?
(A) To increase judicial capacity by recruiting more judges for the regular court system.
(B) To centralize key governance structures to ensure uniform policy implementation across states.
(C) To establish an autonomous Arbitration Council of India for speedier, cheaper arbitration.
(D) To narrow the Swachh Bharat Mission's scope to urban areas for concentrated impact.

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Ans :

(C) To establish an autonomous Arbitration Council of India for speedier, cheaper arbitration.
The 'Governance' section focused on streamlining processes for better outcomes. A key recommendation was to establish a new autonomous body, the Arbitration Council of India. Its purpose would be to grade arbitral institutions and accredit arbitrators, aiming to make the entire arbitration process faster, more cost-effective, and reduce the need for court interventions.

Oct/Nov 2016

58. Read the paragraph below and answer the question that follows.
"The 'Inclusion' section deals with the urgent task of investing in the capabilities of all of Indian citizens. The three themes in this section revolve around the dimensions of health, education, planning in India and mainstreaming of traditionally marginalised sections of the population. A key recommendation is to successfully implement the Ayushman Bharat programme including the establishment of 150,000 health and wellness centres and rolling out the Pradhan Mantri Jan Arogya Abhiyaan (PM-JAY)."
What is the central focus of the 'Inclusion' section as described?
(A) Human capital development and social equity.
(B) Economic growth and industrial development.
(C) Infrastructure creation and digital connectivity.
(D) Fiscal consolidation and governance reform.

Ans :

(A) Human capital development and social equity.
The paragraph explicitly states that the 'Inclusion' section focuses on "investing in the capabilities of all of Indian citizens." The themes mentioned—health (Ayushman Bharat, PM-JAY), education, and mainstreaming marginalized sections—all relate directly to improving human capital and ensuring social equity. The goal is to empower individuals and ensure equitable access to essential services.

May/June 2014

59. Which of the following is NOT listed as one of the three key sources of funds for funding Economic Plans in India?
(A) Domestic Budgetary Sources
(B) Deficit Financing
(C) Foreign Assistance
(D) Private Sector Investment

Ans :

(D) Private Sector Investment
The text identifies three primary sources of funds for financing India's economic plans. These are: Domestic Budgetary Sources (like taxation and public borrowing), Deficit Financing (borrowing from the RBI or public), and Foreign Assistance. While private sector investment is crucial for the economy, it is not listed as one of these three principal sources for public plan funding.

Oct/Nov 2007

60. What is considered the most significant component of Domestic Budgetary Sources for channelizing funds for planning?
(A) Public enterprise surplus
(B) Taxation
(C) Small savings
(D) Public borrowing

Ans :

(B) Taxation
Domestic budgetary resources are the largest contributor to plan financing. Among the various components of these resources, the text explicitly states that "Taxation is among the most significant domestic budgetary resources for channelizing funds for planning." It forms the primary and most stable source of revenue for the government to fund its development programs and investments.

May/June 2025

61. When does the need for Deficit Financing arise for a government?
(A) When total expenditure is exactly equal to total income.
(B) When total income (revenue + capital account) exceeds total expenditure.
(C) When total income (revenue + capital account) falls below total expenditure.
(D) When foreign assistance is the only source of funding available.

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Ans :

(C) When total income (revenue + capital account) falls below total expenditure.
Deficit financing is a method used by the government to bridge its fiscal gap. This situation occurs when the government's total expenditure surpasses its total income, which is the sum of its revenue and capital account receipts. To cover this shortfall, the government resorts to various measures classified under deficit financing, such as borrowing or printing currency.

Oct/Nov 2019

62. Which of the following is NOT a method of deficit financing mentioned in the text?
(A) Borrowing from Public and Foreign Governments.
(B) Withdrawing Cash Balances held with the Reserve Bank of India.
(C) Borrowing from the Reserve Bank of India (RBI).
(D) Selling shares of public sector undertakings (PSUs).

Ans :

(D) Selling shares of public sector undertakings (PSUs).
The text lists three different types of deficit financing: borrowing from the public and foreign governments, withdrawing cash balances held with the RBI, and borrowing from the RBI. Selling shares of PSUs, known as disinvestment, is a method of raising capital receipts for the government but is not categorized under the methods of deficit financing described.

May/June 2009

63. An infrastructure project in India requires large-scale, long-term funding. The terms offered by commercial lenders are too expensive. The project aims to alleviate poverty and promote rural development. Which international financial institution would be a likely source for a sovereign loan on relatively favorable, non-concessional terms for such a project?
(A) The International Bank for Reconstruction and Development (IBRD)
(B) The International Monetary Fund (IMF)
(C) The Asian Infrastructure Investment Bank (AIIB)
(D) The World Trade Organization (WTO)

Ans :

(A) The International Bank for Reconstruction and Development (IBRD)
The scenario fits the description of IBRD lending. The IBRD, a part of the World Bank, provides sovereign loans for projects in infrastructure, poverty alleviation, and rural development. As stated, these loans, while non-concessional, are offered on more favorable terms than commercial sources, making the IBRD a suitable financing partner for such development projects in countries like India.

Oct/Nov 2011

64. During FY 2021-22, which sector received the highest Foreign Direct Investment (FDI) equity inflow in India?
(A) Automobile Industry
(B) Computer software and hardware
(C) Trading
(D) Construction activities

Ans :

(B) Computer software and hardware
The text provides a list of the top five sectors that received the highest FDI equity inflow in the fiscal year 2021-22. According to this list, the computer software and hardware sector was the top recipient. This highlights the growing importance of the technology sector in attracting foreign investment into the Indian economy during that period.

May/June 2010

65. What is the primary aim of IBRD loans, as described in the text?
(A) To provide short-term liquidity to manage balance of payment crises.
(B) To reduce poverty by promoting sustainable development through loans and guarantees.
(C) To offer concessional loans and grants to the least developed countries.
(D) To regulate international trade and resolve trade disputes between nations.

Ans :

(B) To reduce poverty by promoting sustainable development through loans and guarantees.
The text specifies that IBRD's objective is to reduce poverty. It achieves this by promoting sustainable development, primarily through the provision of loans, guarantees, and non-lending services for projects related to infrastructure, poverty alleviation, and human resource

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development. Its focus is on middle-income and creditworthy low-income countries, distinct from IDA's concessional lending.

Oct/Nov 2024

66. Read the paragraph below and answer the question that follows.
"Planning may be classified as centralised or decentralised planning from the standpoint of participation. From a temporal standpoint, planning might be long-term or short-term. Similarly, planning may be sectoral as well as geographical."
Based on this text, if a government creates a 10-year plan focused solely on developing the steel industry across the nation, what types of planning does this represent?
(A) Centralised, long-term, and sectoral
(B) Decentralised, short-term, and geographical
(C) Decentralised, long-term, and sectoral
(D) Centralised, short-term, and geographical

Ans :

(A) Centralised, long-term, and sectoral
The plan is for 10 years, which is long-term. It focuses on a single industry (steel), which is sectoral planning. A nationwide plan initiated by the central government implies a centralized approach. Therefore, the plan embodies centralized, long-term, and sectoral planning characteristics, as categorized in the provided text, covering participation, temporal, and focus-based classifications.

May/June 2017

67. During a severe financial crisis, a country's government decides against implementing its next five-year plan. Instead, for three consecutive years, it formulates and executes separate yearly plans to manage the volatile economic situation. This period of deviation from long-term planning is best described as a:
(A) Plan Revision
(B) Rolling Plan
(C) Plan Holiday
(D) Indicative Plan

Ans :

(C) Plan Holiday
The scenario described mirrors India's experience between 1966 and 1969. When a government abandons its normal five-year planning cycle in favor of yearly plans due to resource constraints or crises, this period is known as a "Plan Holiday." It represents a temporary suspension of the long-term planning process to deal with immediate economic pressures.

Oct/Nov 2005

68. Match the Five-Year Plan in List-I with its corresponding achievement or event in List-II.

	List-I (Plan)		**List-II (Event/Achievement)**
P.	Second Plan	1.	Introduction of Jawahar Rojgar Yojana (JRY)
Q.	Seventh Plan	2.	Establishment of steel plants at Bhilai, Durgapur, Rourkela
R.	Eighth Plan	3.	"Growth with justice and equity" as primary objective
S.	Ninth Plan	4.	Implementation of LPG (Liberalisation, Privatisation, Globalisation) policies

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-3, R-2, S-1

Ans :

(A) P-2, Q-1, R-4, S-3
The Second Plan (P) saw the establishment of major steel plants (2). The Seventh Plan (Q) witnessed the launch of JRY in 1989 (1). The Eighth Plan (R) was when the LPG reforms were implemented (4). The Ninth Plan's (S) primary objective was "growth with justice and equity" (3). This matching correctly aligns each plan with its key associated event or objective.

May/June 2020

69. Read the paragraph below and answer the question that follows.
"The Planning Commission was frequently accused of making discretionary transfers to states to fill non-plan revenue deficiencies, thereby violating the Finance Commissions' rules... NITI Aayog, on the other hand, has established a Development Monitoring and Evaluation Office that collects data on the performance of several ministries in real time."
What fundamental shift in approach does this passage highlight between the Planning

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Commission and NITI Aayog?

(A) From project implementation to policy formulation.
(B) From a focus on agriculture to a focus on industry.
(C) From discretionary fund transfer to performance-based monitoring.
(D) From a five-year cycle to a ten-year cycle.

Ans :

(C) From discretionary fund transfer to performance-based monitoring.

The passage directly contrasts the Planning Commission's controversial practice of discretionary financial transfers with NITI Aayog's new mechanism. NITI Aayog's establishment of the DMEO for real-time performance tracking signifies a major shift. It moves away from subjective financial allocations and toward a system focused on accountability and evidence-based performance monitoring to improve governance efficiency.

Oct/Nov 2015

70. Identify the incorrect statement regarding the history and nature of economic planning in India.

(A) The Planning Commission was established in 1950 and was a non-statutory entity.
(B) The National Development Council (NDC) was chaired by the Finance Minister.
(C) The concept of 'plan holidays' refers to years when annual plans were adopted instead of a five-year plan.
(D) NITI Aayog was established on January 1, 2015, to replace the Planning Commission.

Ans :

(B) The National Development Council (NDC) was chaired by the Finance Minister.

The National Development Council (NDC), which was responsible for approving the Five-Year Plans, was chaired by the Prime Minister, not the Finance Minister. This was to ensure high-level political consensus between the Centre and the states, as the NDC included the Chief Ministers of all states. The other statements about the Planning Commission, plan holidays, and NITI Aayog's establishment are all factually correct.

NODIA

CHAPTER 4

Role of Priority Sector and MSME in The Indian Economy

Oct/Nov 2014

1. According to the RBI's framework, what is the primary purpose of designating certain sectors as 'Priority Sectors'?

(A) To provide them with tax exemptions and subsidies from the government.
(B) To encourage their growth by providing appropriate and timely financing from banks.
(C) To ensure they receive a larger share of foreign direct investment.
(D) To mandate their compulsory listing on the stock exchange for better governance.

Ans :

(B) To encourage their growth by providing appropriate and timely financing from banks.
The RBI's Priority Sector Lending classifications and standards aim to match emerging national priorities and foster inclusive development. Banks are entrusted with encouraging the growth of these sectors by providing adequate and timely finance, which enables better credit penetration in underserved regions and supports vulnerable groups, aligning with national development objectives.

May/June 2021

2. The Micro, Small, and Medium Enterprises (MSME) sector is a significant contributor to the Indian economy. In terms of employment size, it ranks second only to which sector?

(A) Agriculture
(B) Information Technology
(C) Services
(D) Heavy Industries

Ans :

(A) Agriculture
The MSME sector is a major driver of employment in India, employing approximately 120 million people. This places it as the second-largest source of employment in the country, surpassed only by the agriculture sector. The sector's primary benefit is its high employment potential at a relatively low capital cost, making it crucial for job creation.

May/June 2007

3. What is the approximate contribution of the MSME sector to India's manufacturing output?

(A) 25%
(B) 35%
(C) 45%
(D) 55%

Ans :

(C) 45%
The MSME sector plays a vital role in the industrial landscape of India. It contributes significantly to the national economy by accounting for roughly 45% of the total manufacturing output. This highlights its importance not just in employment but also in industrial production, innovation, and the overall supply chain of the country.

Oct/Nov 2025

4. The historical origin of Priority Sector Lending (PSL) can be traced back to a statement made in the Lok Sabha in 1967. Who made this statement, highlighting that sectors like agriculture and small-scale industries were not receiving a fair share of bank credit?

(A) Jawaharlal Nehru
(B) Indira Gandhi
(C) C. D. Deshmukh
(D) Morarji Desai

Ans :

(D) Morarji Desai
The concept of priority sector lending originated from concerns about inequitable credit distribution. On December 14, 1967, Morarji Desai, who was the Deputy Prime Minister and Minister of Finance, pointed out in the Lok Sabha that key sectors were being neglected by

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banks, which led to the formal introduction of the priority sector concept.

May/June 2012

5. The Banking Laws (Amendment) Bill of 1967 was a pivotal step that introduced which concept over banks to align their activities with national objectives?
(A) Complete nationalisation
(B) Privatisation
(C) Social control
(D) Foreign collaboration

Ans :

(C) Social control
The Banking Laws (Amendment) Bill, tabled in the Lok Sabha on December 23, 1967, introduced the concept of social control over banks. This policy was designed to direct banks to align their lending and other activities more closely with national development priorities, particularly by increasing finance to sectors deemed crucial for the economy.

Oct/Nov 2018

6. In which year was it stressed at a National Credit Council meeting that commercial banks should increase their involvement in financing priority sectors like agriculture and small-scale industries?
(A) 1967
(B) 1968
(C) 1969
(D) 1970

Ans :

(B) 1968
Following the introduction of the concept of social control, a National Credit Council meeting was held in July 1968. During this meeting, a strong emphasis was placed on the need for commercial banks to actively enhance their financial support to designated priority sectors, specifically agriculture and small-scale industries, to promote balanced economic growth.

May/June 2019

7. Priority sector lending is designed to focus on sectors that are employment-intensive and have a substantial influence on which specific groups?
(A) Large corporations and multinational companies
(B) Urban elites and high-net-worth individuals
(C) Government-owned public sector undertakings
(D) Vast portions of the population and the weaker sections

Ans :

(D) Vast portions of the population and the weaker sections
The core principle of priority sector lending is to direct credit towards sectors that impact a large part of the population, especially the weaker and more vulnerable sections. This includes employment-intensive areas like agriculture and micro-enterprises, thereby promoting inclusive growth and equitable development across the country's diverse demographic landscape.

Oct/Nov 2006

8. The RBI revised its Priority Sector Lending (PSL) guidelines on September 4, 2020. What was the maximum loan amount for bank finance to start-ups that was included as a new category under these revised guidelines?
(A) ₹50 crores
(B) ₹10 crores
(C) ₹25 crores
(D) ₹100 crores

Ans :

(A) ₹50 crores
To align with emerging national priorities, the RBI's revised PSL guidelines of September 4, 2020, expanded the list of eligible sectors. A significant inclusion was bank finance for start-ups, with a specified limit of up to ₹50 crores. This measure was intended to provide a credit boost to the burgeoning start-up ecosystem in India.

May/June 2016

9. Which of the following is NOT listed as a priority sector category according to the revised RBI guidelines?
(A) Renewable Energy
(B) Social Infrastructure
(C) Information Technology Services
(D) Export Credit

Ans :

(C) Information Technology Services
The revised list of priority sectors includes Agriculture, MSMEs, Export Credit, Education, Housing, Social Infrastructure, Renewable Energy, and Weaker Sections. While technology

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is a focus area for the economy and some technology-based initiatives may fall under other categories, Information Technology Services as a standalone category is not explicitly listed as a priority sector.

Oct/Nov 2010

10. For Domestic commercial banks (excluding RRBs & SFBs) and foreign banks with 20 or more branches, what is the overall target for Priority Sector Lending?
(A) 40% of ANBC or CEOBE, whichever is higher
(B) 75% of ANBC or CEOBE, whichever is higher
(C) 18% of ANBC or CEOBE, whichever is higher
(D) 12% of ANBC or CEOBE, whichever is higher

Ans :

(A) 40% of ANBC or CEOBE, whichever is higher
For larger domestic commercial banks and foreign banks with a significant presence (20 or more branches), the mandated overall Priority Sector Lending target is set at 40% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance-Sheet Exposures (CEOBE), whichever amount is higher, based on preceding year's data.

May/June 2023

11. What is the total Priority Sector Lending target for Regional Rural Banks (RRBs)?
(A) 40% of ANBC or CEOBE, whichever is higher
(B) 50% of ANBC or CEOBE, whichever is higher
(C) 60% of ANBC or CEOBE, whichever is higher
(D) 75% of ANBC or CEOBE, whichever is higher

Ans :

(D) 75% of ANBC or CEOBE, whichever is higher
Regional Rural Banks (RRBs) have a higher Priority Sector Lending mandate to reflect their core objective of serving rural and semi-urban areas. Their total PSL target is set at 75% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance-Sheet Exposures (CEOBE), whichever is higher for the specified period.

Oct/Nov 2022

12. For foreign banks with fewer than 20 branches, what is the maximum percentage of the PSL target that can be fulfilled through lending to Exports?
(A) 8%
(B) 32%
(C) 18%
(D) 40%

Ans :

(B) 32%
Foreign banks with less than 20 branches have a total PSL target of 40% of ANBC or CEOBE. Within this target, they are given a specific provision for export credit. A maximum of 32% of their ANBC or CEOBE can be in the form of lending to exports, with the remaining 8% directed to other priority sectors.

NODIA

May/June 2018

13. Refer to the following excerpt from the Priority Sector Lending Norms table: "For Regional Rural Banks, the Total Priority Sector target is 75% of ANBC or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15% of ANBC." Based on this, what is the specific restriction placed on RRBs regarding certain PSL categories?
(A) Lending to Medium Enterprises is completely disallowed under the priority sector.
(B) RRBs must lend at least 15% of their ANBC to Medium Enterprises.
(C) The combined lending to Medium Enterprises, Social Infrastructure, and Renewable Energy is capped.
(D) The total PSL target for RRBs can be reduced to 15% under special conditions.

Ans :

(C) The combined lending to Medium Enterprises, Social Infrastructure, and Renewable Energy is capped.
The norm specifies that while the overall PSL target for Regional Rural Banks is 75% of ANBC or CEOBE, there is a specific cap on certain categories. Lending to Medium Enterprises, Social Infrastructure, and Renewable Energy is eligible for PSL classification, but only up to a combined limit of 15% of the bank's ANBC.

Oct/Nov 2016

14. What is the priority sector sub-target for lending to Small and Marginal Farmers (SMFs) for Domestic commercial banks (excluding RRBs & SFBs)?
(A) 7.5% of ANBC or CEOBE, whichever is higher
(B) 12% of ANBC or CEOBE, whichever is higher

(C) 18% of ANBC or CEOBE, whichever is higher
(D) 10% of ANBC or CEOBE, whichever is higher

Ans :

(D) 10% of ANBC or CEOBE, whichever is higher
Within the overall agriculture lending target of 18% of ANBC or CEOBE, there is a specific sub-target to ensure credit flow to the most vulnerable farmers. For domestic commercial banks, this sub-target for lending to Small and Marginal Farmers is prescribed at 10% of ANBC or CEOBE, whichever is higher.

May/June 2014

15. For Small Finance Banks (SFBs), what is the prescribed sub-target for lending to Micro Enterprises?
(A) 7.5% of ANBC or CEOBE, whichever is higher
(B) 12% of ANBC or CEOBE, whichever is higher
(C) 10% of ANBC or CEOBE, whichever is higher
(D) 18% of ANBC or CEOBE, whichever is higher

Ans :

(A) 7.5% of ANBC or CEOBE, whichever is higher
Small Finance Banks are mandated to have a strong focus on small-scale economic activities. In line with this objective, they have a specific sub-target for lending to Micro Enterprises, which is set at 7.5% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance-Sheet Exposures (CEOBE), whichever is higher.

Oct/Nov 2007

16. What is the priority sector lending target for 'Advances to Weaker Sections' for Regional Rural Banks (RRBs)?
(A) 10% of ANBC or CEOBE, whichever is higher
(B) 15% of ANBC or CEOBE, whichever is higher
(C) 12% of ANBC or CEOBE, whichever is higher
(D) 18% of ANBC or CEOBE, whichever is higher

Ans :

(B) 15% of ANBC or CEOBE, whichever is higher
Regional Rural Banks have a higher mandate for inclusive banking compared to larger commercial banks. Their specific target for lending to the 'Weaker Sections' of society is set at 15% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance-Sheet Exposures (CEOBE), whichever is higher, to ensure financial inclusion.

May/June 2025

17. According to the Government of India Gazette Notification dated June 26, 2020, what are the criteria for an enterprise to be classified as a Micro Enterprise?
(A) Investment in plant and machinery or equipment does not exceed ₹25 Lakh and turnover does not exceed ₹1 Crore.
(B) Investment in plant and machinery or equipment does not exceed ₹1 crore and turnover does not exceed ₹5 crores.
(C) Investment in plant and machinery or equipment does not exceed ₹10 crore and turnover does not exceed ₹50 crores.
(D) Investment in plant and machinery or equipment does not exceed ₹50 Lakh and turnover does not exceed ₹2 Crores.

Ans :

(B) Investment in plant and machinery or equipment does not exceed ₹1 crore and turnover does not exceed ₹5 crores.
The revised 2020 definition of MSMEs introduced composite criteria based on both investment and turnover. For an enterprise to be classified as 'Micro', its investment in plant and machinery or equipment must not be more than ₹1 crore, and its annual turnover must not be more than ₹5 crores. Both conditions must be satisfied.

Oct/Nov 2019

18. Under the new MSME definition of 2020, what are the investment and turnover limits for a Small Enterprise?
(A) Investment not exceeding ₹10 crores and turnover not exceeding ₹50 crores.
(B) Investment not exceeding ₹1 crore and turnover not exceeding ₹5 crores.
(C) Investment not exceeding ₹5 crores and turnover not exceeding ₹25 crores.
(D) Investment not exceeding ₹50 crores and turnover not exceeding ₹100 crores.

Ans :

(A) Investment not exceeding ₹10 crores and turnover not exceeding ₹50 crores.
The classification for a 'Small Enterprise' under the new criteria requires the enterprise's investment in plant and machinery or equipment to not exceed ₹10 crores. Additionally, its annual turnover must not exceed ₹50 crores. This definition applies uniformly to both

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manufacturing and service enterprises, removing the previous distinction between the two sectors.

May/June 2009

19. An enterprise is classified as a Medium Enterprise if its investment in plant and machinery or equipment does not exceed ₹50 crores and its turnover does not exceed what amount?
(A) ₹100 crores
(B) ₹150 crores
(C) ₹250 crores
(D) ₹200 crores

Ans :

(C) ₹250 crores
For an enterprise to be categorized as a 'Medium Enterprise' under the revised 2020 definition, it must meet two criteria. The investment in plant and machinery or equipment should not be more than ₹50 crores, and concurrently, the annual turnover of the enterprise must not exceed ₹250 crores, facilitating its growth and expansion.

Oct/Nov 2011

20. What is the mandatory requirement for all enterprises to be classified as a Micro, Small, or Medium Enterprise under the new rules?
(A) They must be registered with the local District Industries Centre.
(B) They must obtain a certificate from a chartered accountant annually.
(C) They must be a member of a recognized industry association.
(D) They must register online on the Udyam Registration Portal and obtain a certificate.

Ans :

(D) They must register online on the Udyam Registration Portal and obtain a certificate.
A key feature of the new MSME framework is the simplification of the registration process. All enterprises seeking MSME classification are required to register on the Udyam Registration Portal. This process is entirely online, paperless, and based on self-declaration, after which they are issued an 'Udyam Registration Certificate' for official recognition.

May/June 2010

21. A manufacturing firm, 'Apex Industries', made an investment in new machinery worth ₹7 crores. In the same financial year, its total turnover was recorded at ₹48 crores. Based on the new MSME definition effective from June 2020, how would Apex Industries be classified?
(A) Micro Enterprise
(B) Medium Enterprise
(C) Small Enterprise
(D) Large Enterprise (not an MSME)

Ans :

(C) Small Enterprise
To be a Small Enterprise, the investment must not exceed ₹10 crores and turnover must not exceed ₹50 crores. Apex Industries has an investment of ₹7 crores (which is $\leq$ 10 crores) and a turnover of ₹48 crores (which is $\leq$ 50 crores). Since both criteria are met, it is correctly classified as a Small Enterprise.

NODIA

Oct/Nov 2024

22. Consider the table comparing the Old and New definitions of MSMEs for a 'Small' manufacturing enterprise:
- Old Definition (Manufacturing): Investment in Plant and Machinery: More than ₹25 lakhs but does not exceed ₹5 crores.
- New Definition (Manufacturing/Services): Investment in Plant and Machinery or Equipment: does not exceed ₹10 crore and turnover does not exceed ₹50 crores.

Which statement correctly reflects a key change introduced by the new definition for a small manufacturing unit?
(A) The new definition lowered the maximum investment limit for a small enterprise.
(B) The new definition introduced a turnover criterion and increased the investment limit.
(C) The new definition only applies to service sector enterprises, not manufacturing.
(D) The new definition removed the investment criterion and focuses only on turnover.

Ans :

(B) The new definition introduced a turnover criterion and increased the investment limit.
The new definition significantly altered the classification. It raised the maximum investment limit for a small manufacturing enterprise from ₹5 crores to ₹10 crores. Crucially, it also introduced a new, composite criterion of annual turnover, which was absent in the old definition for manufacturing units, setting the cap at ₹50 crores.

May/June 2017

23. Under the old MSME definition, what was the investment limit in equipment for a 'Medium' enterprise in the services sector?

(A) More than ₹10 Lakh but does not exceed ₹2 crores.
(B) More than ₹5 crores but does not exceed ₹10 crores.
(C) Does not exceed ₹25 Lakh.
(D) More than ₹2 crores but does not exceed ₹5 crores.

Ans :

(D) More than ₹2 crores but does not exceed ₹5 crores.
Before the 2020 revision, the MSME definition had separate criteria for manufacturing and services. For a service enterprise to be classified as 'Medium', its investment in equipment had to be more than ₹2 crores but could not exceed the upper limit of ₹5 crores. This distinction was abolished in the new composite definition.

Oct/Nov 2005

24. A major advantage of the new MSME definition is that it allows businesses to expand without losing government benefits. Which of the following is NOT a scheme mentioned through which MSMEs receive such benefits?

(A) Foreign Trade Promotion Scheme (FTPS)
(B) Prime Minister Employment Generation Programme (PMEGP)
(C) Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
(D) Micro Small Enterprises-Cluster Development Programme (MSE-CDP)

Ans :

(A) Foreign Trade Promotion Scheme (FTPS)
The new definition helps MSMEs achieve economies of scale without being deprived of benefits from various government schemes. The text specifically mentions incentives through MSE-CDP, PMEGP, and SFURTI. While export promotion is a benefit, "Foreign Trade Promotion Scheme (FTPS)" is not explicitly listed among the examples provided in this context.

May/June 2020

25. The Udyam Registration Portal, launched in July 2020, aims to boost the ease of doing business for MSMEs. What is a key characteristic of its registration procedure?

(A) It requires physical submission of documents and a fee at a designated district industries office.
(B) It requires mandatory inspection of the enterprise premises and machinery before a certificate is issued.
(C) It is entirely online, digital, paperless, and based on self-declaration.
(D) It is only available for enterprises in the manufacturing sector, with separate portals for service providers.

Ans :

(C) It is entirely online, digital, paperless, and based on self-declaration.
The government launched the Udyam Registration Portal to simplify the process for MSMEs. The procedure is designed for maximum ease, being completely digital and paperless. Entrepreneurs can register based on self-declaration without needing to upload any documents or proof, thus streamlining the entire process and promoting ease of doing business.

Oct/Nov 2015

26. Globally, Small and Medium Enterprises (SMEs) are critical engines of economic growth. Approximately what percentage of businesses do they account for worldwide?

(A) 90%
(B) 50%
(C) 70%
(D) 80%

Ans :

(A) 90%
The significance of the SME sector is a global phenomenon. On a worldwide scale, Small and Medium Enterprises are the backbone of most economies, accounting for around 90% of all businesses. They also contribute to more than 50% of employment globally, highlighting their universal importance in economic development and job creation.

May/June 2013

27. Identify the incorrect statement regarding the significance of the MSME sector in India.

(A) It is diverse in terms of enterprise size, product range, and technology.
(B) It is a critical engine for job creation, innovation, and entrepreneurship.
(C) It has benefited from finance from both

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domestic and foreign investors.
(D) It is primarily concentrated in metropolitan cities and has low geographic dispersion.

Ans :

(D) It is primarily concentrated in metropolitan cities and has low geographic dispersion.
The MSME sector is praised for encouraging the development of industries in all parts of the country, indicating wide geographic dispersion, not concentration in cities. The other statements are correct; the sector is diverse, a critical engine for growth and innovation, and has attracted both domestic and foreign finance, contributing to its development.

Oct/Nov 2021

28. The table 'Share of Gross Value Added (GVA) of MSME in all India GDP' shows data from 2014-15 to 2018-19. Based on the data for the year 2018-19, what were the approximate shares of MSME in Total GVA and All India GDP respectively?
(A) 31.8% in GVA and 29.34% in GDP
(B) 33.5% in GVA and 30.27% in GDP
(C) 32.24% in GVA and 29.25% in GDP
(D) 32.79% in GVA and 29.75% in GDP

Ans :

(B) 33.5% in GVA and 30.27% in GDP
According to the provided table, for the financial year 2018-19, the Total MSME GVA was ₹57,41,765 crore and the Total GVA was ₹1,71,39,962 crore, making the 'Share of MSME in GVA (%)' 33.5%. The 'Share of MSME in All India GDP (in%)' for the same year is listed as 30.27%.

May/June 2024

29. According to the data in the GVA contribution table, in which year did the MSME GVA exhibit the highest percentage growth?
(A) 2015-16
(B) 2016-17
(C) 2017-18
(D) 2018-19

Ans :

(C) 2017-18
The table provides year-on-year growth percentages for Total MSME GVA. The growth rates were 10.97% in 2015-16, 10.9% in 2016-17, 12.98% in 2017-18, and 12.88% in 2018-19. The highest growth rate among these years was 12.98%, which occurred in the financial year 2017-18, indicating a significant expansion during that period.

Oct/Nov 2008

30. Bank credit to industry improved to 12.6% year-on-year in September 2022. What was the comparative growth rate in the same month of FY 2021?
(A) 27%
(B) 12.6%
(C) 36%
(D) 1.7%

Ans :

(D) 1.7%
The text highlights a significant pickup in bank lending to the industrial sector, driven by MSMEs. It explicitly states that bank credit to industry improved by 12.6% year-on-year in September 2022, which was a substantial increase when compared to the muted growth of only 1.7% recorded in the same month of the previous fiscal year, FY 2021.

NODIA

May/June 2006

31. The higher credit growth for the MSME sector was attributed partly to the extension of which scheme until March 31, 2022?
(A) Emergency Credit Line Guarantee Scheme (ECLGS)
(B) Credit Linked Capital Subsidy Scheme (CLCSS)
(C) Stand-Up India Scheme
(D) National Manufacturing Competitiveness Programme (NMCP)

Ans :

(A) Emergency Credit Line Guarantee Scheme (ECLGS)
The text suggests a reason for the accelerated bank credit growth to MSMEs. It states that the higher credit growth may have been influenced by the extension of the Emergency Credit Line Guarantee Scheme (ECLGS). This scheme, introduced during the pandemic, was extended until March 31, 2022, facilitating increased credit flow to the sector.

Oct/Nov 2017

32. The MSME sector has created approximately 11.10 crore jobs across the country. Which sub-sector accounted for the largest share of this employment generation?

(A) Manufacturing
(B) Trade
(C) Other Services
(D) Non-captive Electricity Generation and Transmission

Ans :

(B) Trade
The text provides a breakdown of the 11.10 crore jobs created by the MSME sector. The figures are 360.41 lakh in Manufacturing, 0.07 lakh in Electricity, 387.18 lakh in Trade, and 362.82 lakh in Other Services. Comparing these figures, Trade has the highest number of jobs at 387.18 lakh, making it the largest employment generator.

May/June 2008

33. The government has set a target of $1 trillion in exports by FY27. Which scheme was introduced to enhance the quality of MSME products and increase their exports to help achieve this target?
(A) Make in India
(B) Capacity Building of First-Time MSME Exporters (CBFTE)
(C) Udyami Mitra Portal
(D) A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE)

Ans :

(B) Capacity Building of First-Time MSME Exporters (CBFTE)
To align with the ambitious export target of $1 trillion by FY27, the government initiated a specific scheme to support MSMEs in global markets. This scheme is the 'Capacity Building of First-Time MSME Exporters' (CBFTE), which is designed to improve product quality and boost the export capabilities of MSMEs, especially those new to exporting.

Oct/Nov 2013

34. Which of the following is NOT listed as an objective that the MSME sector has helped the country to achieve?
(A) Development of capital-intensive industries
(B) High contribution to domestic production
(C) Significant export earnings
(D) Low investment requirements

Ans :

(A) Development of capital-intensive industries
The text lists several objectives achieved through the MSME sector, including high domestic production, significant export earnings, and low investment requirements. A key characteristic of the sector is its low capital cost and high employment potential, which is contrary to the development of capital-intensive industries that require large financial outlays for machinery and infrastructure.

May/June 2015

35. Which of the following is described as a key strength of the MSME sector, contributing to its competitiveness in domestic and export markets?
(A) High import dependency
(B) Operational rigidity
(C) Capacities to develop appropriate indigenous technology
(D) Centralized geographical location

Ans :

(C) Capacities to develop appropriate indigenous technology
The text lists several strengths of the MSME sector, such as operational flexibility, location-wise mobility, and low intensive imports. A particularly important strength mentioned is the sector's ability to develop appropriate indigenous technology. This capacity for local innovation enhances self-reliance and contributes to the sector's competitiveness both domestically and in export markets.

Oct/Nov 2012

36. As India aims to become a $5 trillion economy, what goal has the Ministry of MSME set for the sector's contribution to GDP by 2025?
(A) 30%
(B) 40%
(C) 60%
(D) 50%

Ans :

(D) 50%
In line with the national economic goal of reaching a $5 trillion economy, the Ministry of MSME has set an ambitious target for the sector's growth. The goal is to increase the contribution of the MSME sector to the national Gross Domestic Product (GDP) to 50% by the year 2025, up from its current levels.

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May/June 2011

37. What significant change regarding MSME classification was introduced in 2020, besides the new investment and turnover criteria?
(A) The distinction between micro and small enterprises was abolished.
(B) Registration was made optional for all service sector MSMEs.
(C) The distinction between manufacturing and service MSMEs was abolished.
(D) Export turnover was excluded from the calculation of total turnover.

Ans :

(C) The distinction between manufacturing and service MSMEs was abolished.
A major reform in the 2020 MSME definition was the elimination of the long-standing distinction between manufacturing enterprises and service enterprises. The new composite criteria of investment and turnover are now applied uniformly across both sectors, simplifying classification and creating a level playing field for all types of MSMEs to grow and expand.

Oct/Nov 2020

38. The 'Make in India' programme was introduced by the Prime Minister in September 2014. What was its primary objective?
(A) To exclusively promote the agricultural sector.
(B) To turn India into a global design and manufacturing hub.
(C) To nationalize all foreign companies operating in India.
(D) To focus solely on the development of the IT services industry.

Ans :

(B) To turn India into a global design and manufacturing hub.
Launched in September 2014, the 'Make in India' initiative was created with the ambitious goal of transforming India into a major global center for both design and manufacturing. The program aims to attract investment, foster innovation, and build best-in-class manufacturing infrastructure to encourage companies to manufacture their products in India.

NODIA

May/June 2022

39. The 'Make in India' project is built on four pillars to boost entrepreneurship. Which of the following is NOT one of these four pillars?
(A) New Processes
(B) New Infrastructure
(C) New Mind-set
(D) New Regulations

Ans :

(D) New Regulations
The 'Make in India' initiative is strategically founded on four pillars designed to foster entrepreneurship and improve the business environment. These four pillars are explicitly listed as New Processes, New Infrastructure, New Sectors, and New Mind-set. 'New Regulations' is not mentioned as one of the foundational pillars of this program.

Oct/Nov 2023

40. What was the targeted contribution of the manufacturing sector to GDP by 2020-2022 under the Make in India action plan?
(A) 25%
(B) 15%
(C) 20%
(D) 30%

Ans :

(A) 25%
A key quantifiable goal of the Make in India action plan was to significantly increase the share of the manufacturing sector in the national economy. The plan aimed to raise the manufacturing sector's contribution to the country's Gross Domestic Product (GDP) to 25% by the period 2020-2022, up from previous levels.

May/June 2005

41. What was the total amount of the collateral-free credit scheme introduced as part of the Emergency Credit Line Guarantee Scheme (ECLGS) during the COVID-19 pandemic?
(A) ₹1 lakh crore
(B) ₹2 lakh crore
(C) ₹3 lakh crore
(D) ₹5 lakh crore

Ans :

(C) ₹3 lakh crore
To provide relief to the MSME sector affected by the COVID-19 pandemic, the government

launched the Emergency Credit Line Guarantee Scheme (ECLGS). This scheme introduced a significant financial support measure in the form of a ₹3 lakh crore collateral-free automatic loan facility for eligible MSMEs and other businesses to meet their operational liabilities.

Oct/Nov 2009

42. The Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) provides support to first-generation entrepreneurs by facilitating what type of loans?
(A) Collateral-free loans up to ₹1 crore.
(B) Loans with high collateral requirements up to ₹5 crore.
(C) Interest-free loans for export purposes.
(D) Long-term equity investment from SIDBI.

Ans :

(A) Collateral-free loans up to ₹1 crore.
The CGTMSE scheme was launched by the Ministry of MSME and SIDBI to address the challenge of accessing credit without collateral. It facilitates the flow of credit to the Micro and Small Enterprise (MSE) sector by providing guarantees to lending institutions, enabling them to offer collateral-free loans of up to ₹1 crore.

May/June 2016

43. The Interest Subsidy Eligibility Certificate (ISEC) scheme serves as a funding mechanism for which specific program run by the country's khadi institutions?
(A) The PMEGP programme
(B) The SFURTI programme
(C) The ASPIRE programme
(D) The khadi programme

Ans :

(D) The khadi programme
The ISEC scheme is specifically designed to support the khadi sector. It acts as a mechanism to facilitate borrowing from banks for khadi institutions. The scheme bridges the gap between the funds available from budgetary sources and the actual financial requirements of these institutions, thereby ensuring a steady flow of credit for their operations.

Oct/Nov 2014

44. When was the Start-up India initiative launched by the Government of India?
(A) September 2014
(B) January 2016
(C) July 2020
(D) August 2015

Ans :

(B) January 2016
The Government of India launched the flagship Start-up India initiative in January 2016. The program was designed to build a strong ecosystem for nurturing innovation and start-ups in the country. Its objective is to drive sustainable economic growth and generate large-scale employment opportunities by encouraging a culture of entrepreneurship across various sectors.

May/June 2021

45. What is the tagline associated with the Start-up India initiative?
(A) "Make in India, Make for the World"
(B) "Atmanirbhar Bharat"
(C) "Start-up India and Stand-up India"
(D) "Vocal for Local"

Ans :

(C) "Start-up India and Stand-up India"
The Start-up India initiative was launched with the clear and memorable tagline "Start-up India and Stand-up India." This phrase encapsulates the dual objectives of the government's push for entrepreneurship: fostering a new generation of innovative start-ups and empowering individuals, particularly from disadvantaged sections, to establish their own business ventures through financial support.

Oct/Nov 2022

46. The Stand-Up India Scheme is specifically designed to provide financial assistance to which group of entrepreneurs for starting greenfield ventures?
(A) All first-generation entrepreneurs irrespective of background.
(B) Entrepreneurs in the technology and IT sectors only.
(C) Existing MSMEs seeking to expand their operations overseas.
(D) Women entrepreneurs and entrepreneurs belonging to the SC/ST category.

Ans :

(D) Women entrepreneurs and entrepreneurs belonging to the SC/ST category.

NODIA

The Stand-Up India Scheme has a focused mandate to promote entrepreneurship among specific demographic groups. It aims to facilitate bank loans for setting up new (greenfield) enterprises in the manufacturing, services, or trading sector, specifically for entrepreneurs who are either women or belong to the Scheduled Caste (SC) or Scheduled Tribe (ST) categories.

May/June 2018

47. An entrepreneur belonging to the Scheduled Tribe (ST) category plans to set up a new food processing unit. She requires a bank loan of ₹75 lakh to fund her project. Which government scheme is specifically tailored to provide her with this financial assistance at a low interest rate?
(A) Stand-Up India Scheme
(B) Start-up India Scheme
(C) CGTMSE
(D) PMEGP

Ans :

(A) Stand-Up India Scheme
The Stand-Up India Scheme is designed for this exact scenario. It targets women and SC/ST entrepreneurs starting greenfield projects and provides loans ranging from ₹10 lakh to ₹1 crore. Since the entrepreneur is from the ST category and requires a loan of ₹75 lakh for a new venture, she is the ideal beneficiary for this scheme.

Oct/Nov 2016

48. What is the range of special loans provided under the Stand-Up India Scheme to eligible beneficiaries?
(A) ₹1 lakh to ₹10 lakh
(B) ₹10 lakh to ₹1 crore
(C) ₹1 crore to ₹5 crore
(D) ₹50,000 to ₹5 lakh

Ans :

(B) ₹10 lakh to ₹1 crore
The Stand-Up India Scheme provides a specific range of financial support to its target beneficiaries, who are women and SC/ST entrepreneurs. The scheme facilitates bank loans for greenfield enterprises with a loan amount between ₹10 lakh and ₹1 crore. This quantum is intended to be sufficient for setting up a reasonably sized new business.

May/June 2014

49. In the Union Budget 2021-22, an allocation of ₹1.97 lakh crore was earmarked for the Production Linked Incentive (PLI) schemes. How many sectors were identified to be covered under this allocation?
(A) 10
(B) 13
(C) 15
(D) 20

Ans :

(B) 13
The Production Linked Incentive (PLI) scheme was significantly expanded with an allocation of ₹1.97 lakh crore in the Union Budget 2021-22. This funding was earmarked to cover 13 important and strategic sectors over a five-year period, aiming to boost domestic manufacturing, create economies of scale, and integrate India into the global supply chain.

Oct/Nov 2007

50. The PLI schemes provide incentives to qualifying manufacturers on additional sales above a base year. What is the range of these incentives?
(A) 4% to 6%
(B) 1% to 3%
(C) 2% to 5%
(D) 8% to 10%

Ans :

(A) 4% to 6%
The core mechanism of the PLI scheme is to reward incremental production. Qualifying manufacturers receive a financial incentive on the additional sales they generate over and above the sales of a base year (2019-20). This incentive is provided as a direct payment and ranges from 4% to 6%, depending on the sector.

May/June 2025

51. For how long is the incentive under the PLI schemes typically provided to the selected beneficiaries?
(A) A one- to two-year period
(B) A two- to three-year period
(C) A four- to six-year period
(D) A ten-year period

Ans :

(C) A four- to six-year period

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The PLI scheme is designed as a medium-term support mechanism to help industries achieve scale and competitiveness. The financial incentives, ranging from 4% to 6% on incremental sales, are provided to the qualifying manufacturers for a period of four to six years, beginning from the fiscal year 2021-22 for the initially announced sectors.

Oct/Nov 2019

52. Examine the 'Sector Specific PLI Allocation' table. Which sector received the highest allocation of funds under the PLI scheme?

(A) Mobile Manufacturing and Specified Electronic Components
(B) Pharmaceuticals Drugs
(C) Advanced Chemistry Cell (ACC) Battery
(D) Automobiles and Auto Components

Ans :

(D) Automobiles and Auto Components
A review of the PLI allocation table shows the following amounts: Mobile Manufacturing (₹40,951 crore), Pharmaceuticals (₹15,000 crore), Automobiles and Auto Components (₹57,042 crore), and ACC Battery (₹18,100 crore). The allocation for Automobiles and Auto Components at ₹57,042 crore is the highest among all the sectors listed in the table.

May/June 2009

53. Which of the following sectors is NOT part of the 13 champion sectors included in the PLI scheme as mentioned in the text?

(A) Textile
(B) Steel
(C) Real Estate
(D) Telecom

Ans :

(C) Real Estate
The text explicitly mentions that the PLI programme includes 13 champion sectors. It provides examples such as textile, steel, telecom, automobiles, and pharmaceuticals. Real Estate is not mentioned as one of the specialized sectors covered under this scheme, which focuses primarily on boosting manufacturing, exports, and technology-intensive industries to make Indian firms globally competitive.

Oct/Nov 2011

54. Which institution launched the Udyami Mitra Portal to improve the accessibility of credit and handholding services for MSMEs?

(A) Reserve Bank of India (RBI)
(B) Small Industries Development Bank of India (SIDBI)
(C) Ministry of Finance
(D) NITI Aayog

Ans :

(B) Small Industries Development Bank of India (SIDBI)
The Udyami Mitra Portal is an initiative specifically launched by the Small Industries Development Bank of India (SIDBI). The portal is designed as a universal access platform to meet the financial and non-financial needs of the MSME sector. It aims to improve credit accessibility and provide necessary guidance and handholding services to entrepreneurs.

May/June 2010

55. What is the primary purpose of the MSME Sambandh portal?

(A) To provide a marketplace for MSME products.
(B) To facilitate skill development programs for MSME employees.
(C) To register complaints regarding delayed payments to MSMEs.
(D) To monitor the implementation of public procurement from MSMEs by Central Public Sector Enterprises.

Ans :

(D) To monitor the implementation of public procurement from MSMEs by Central Public Sector Enterprises.
The MSME Sambandh portal was created to ensure compliance with the Public Procurement Policy for Micro and Small Enterprises Order, 2012. Its main function is to monitor the procurement activities of Central Public Sector Enterprises (CPSEs) to ensure that they are meeting the mandated procurement goals from MSMEs, thereby providing them with market access.

Oct/Nov 2024

56. Which portal empowers Micro and Small entrepreneurs to directly register cases related to delayed payments from Central Ministries, Departments, and CPSEs?

NODIA

(A) MSME Delayed Payment Portal
(B) Udyami Mitra Portal
(C) MSME Sambandh
(D) Digital MSME Scheme

Ans :

(A) MSME Delayed Payment Portal
To address the critical issue of delayed payments, which affects the liquidity of small businesses, the MSME Delayed Payment Portal was established. This platform specifically empowers Micro and Small entrepreneurs to file complaints directly against Central Ministries/Departments, CPSEs, and State Governments for delays in clearing their dues, facilitating timely resolution of such issues.

May/June 2017

57. The Digital MSME Scheme involves the use of which technology to help MSMEs access IT infrastructure?
(A) Blockchain
(B) Artificial Intelligence
(C) Cloud Computing
(D) 3D Printing

Ans :

(C) Cloud Computing
The Digital MSME Scheme is designed to promote the adoption of information technology within the MSME sector. It specifically involves the use of Cloud Computing, where MSMEs can use the internet to access common as well as tailor-made IT infrastructure. This helps them to digitize their business processes without incurring heavy capital expenditure on hardware.

Oct/Nov 2005

58. Which scheme organises traditional industries and artisans into clusters to make them more competitive by enhancing their marketability and skills?
(A) Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
(B) National Manufacturing Competitiveness Programme (NMCP)
(C) A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE)
(D) Micro & Small Enterprises Cluster Development Programme (MSE-CDP)

Ans :

(A) Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
The SFURTI scheme is focused on the development of traditional industries like khadi, coir, and village industries. Its approach is to organize artisans and traditional industries into clusters, providing them with support for skill development, technology upgradation, market access, and infrastructure, thereby enhancing their overall competitiveness and sustainability in the modern economy.

May/June 2020

59. What is the main objective of the 'A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship' (ASPIRE)?
(A) To provide direct capital subsidies for technology upgradation in agro-based MSMEs.
(B) To create a system to monitor public procurement from rural and traditional industries.
(C) To facilitate collateral-free loans specifically for existing, established rural enterprises.
(D) To promote a culture of rural entrepreneurship and create local employment.

Ans :

(D) To promote a culture of rural entrepreneurship and create local employment.
ASPIRE is designed to foster a culture of innovation and entrepreneurship, particularly in rural and agro-based industries. Its key objectives are to create new employment opportunities, thereby reducing unemployment, and to promote an entrepreneurial mindset by facilitating innovative business solutions and setting up livelihood business incubators to support start-ups in this space.

Oct/Nov 2015

60. The Credit Linked Capital Subsidy Scheme (CLCSS) is operational for what purpose for MSMEs?
(A) Providing working capital finance.
(B) Upgradation of technology for MSMEs.
(C) Facilitating export credit.
(D) Subsidizing interest on loans for new enterprises.

Ans :

(B) Upgradation of technology for MSMEs.

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The Credit Linked Capital Subsidy Scheme (CLCSS) is a crucial government initiative aimed at improving the technological base of Micro and Small Enterprises. The scheme facilitates technology upgradation by providing an upfront capital subsidy to MSE units on institutional finance availed by them for the induction of well-established and improved technologies in approved sub-sectors.

May/June 2013

61. Assertion (A): The new MSME definition, introduced in 2020, will make it easier for small businesses to expand and flourish.
Reason (R): The resulting economies of scale can boost productivity without depriving MSMEs of government benefits like market support and preferential procurement.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that the new definition facilitates expansion is true. The reason correctly explains this by stating that higher investment and turnover limits allow firms to grow larger (achieve economies of scale) and increase productivity while still remaining within the MSME classification, thus continuing to be eligible for various government support schemes.

Oct/Nov 2021

62. Consider the following statements regarding Priority Sector Lending (PSL) norms:
1. The total PSL target for Small Finance Banks is 75% of ANBC or CEOBE.
2. The PSL target for Agriculture for Regional Rural Banks is 18% of ANBC or CEOBE.
3. Foreign banks with less than 20 branches are exempt from PSL norms.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(B) 1 and 2 only
Statement 1 is correct as SFBs have a 75% target. Statement 2 is also correct as RRBs share the 18% agriculture target. Statement 3 is incorrect; foreign banks with less than 20 branches have a 40% PSL target, though with different sub-targets and compositions compared to larger banks. They are not exempt from the norms.

May/June 2024

63. A foreign bank operating in India has 18 branches. Its ANBC for the previous year was ₹20,000 crore. The bank extended loans worth ₹7,000 crore to the export sector and ₹1,000 crore to the education sector. Has the bank met its Priority Sector Lending obligations?
(A) No, because the lending to exports exceeds the permissible limit for PSL calculation.
(B) Yes, because its total PSL is 40% of ANBC.
(C) No, because lending to the education sector does not count.
(D) Yes, because it has lent more than ₹8,000 crore to priority sectors.

Ans :

(A) No, because the lending to exports exceeds the permissible limit for PSL calculation.
For a foreign bank with less than 20 branches, the total PSL target is 40% of ANBC (₹8,000 crore). However, a maximum of 32% of ANBC can be in the form of export credit. 32% of ₹20,000 crore is ₹6,400 crore. The bank's counted PSL is ₹6,400 crore (from exports) + ₹1,000 crore (from education) = ₹7,400 crore, which is less than the required ₹8,000 crore.

Oct/Nov 2008

64. Match the scheme in List-I with its primary objective in List-II.
List-I (Scheme)
P. CGTMSE
Q. Stand-Up India
R. SFURTI
S. CLCSS
List-II (Objective)
1. Technology upgradation for MSMEs
2. Collateral-free loans for micro & small enterprises
3. Loans for SC/ST and women entrepreneurs
4. Cluster development for traditional industries
(A) P-2, Q-3, R-4, S-1

(B) P-3, Q-2, R-1, S-4
(C) P-2, Q-4, R-3, S-1
(D) P-1, Q-3, R-4, S-2

Ans :

(A) P-2, Q-3, R-4, S-1
CGTMSE (P) facilitates collateral-free loans (2). Stand-Up India (Q) is for SC/ST and women entrepreneurs (3). SFURTI (R) focuses on cluster development for traditional industries (4). CLCSS (S) provides a subsidy for technology upgradation (1). Therefore, the correct matching sequence is P-2, Q-3, R-4, and S-1, aligning each scheme with its specific purpose.

May/June 2006

65. Which of the following statements about the 'Make in India' initiative is incorrect?
(A) It was introduced in September 2014 to make India a global manufacturing hub.
(B) It is exclusively focused on heavy manufacturing and excludes service sectors.
(C) It is built on four pillars: New Processes, New Infrastructure, New Sectors, and New Mind-set.
(D) It aimed to increase the manufacturing sector's contribution to GDP to 25% by 2020-2022.

Ans :

(B) It is exclusively focused on heavy manufacturing and excludes service sectors.
The text explicitly states that the four pillars were established to boost entrepreneurship in India, "not just in manufacturing but also in other sectors." This indicates that the initiative has a broad scope beyond only heavy manufacturing and is inclusive of other sectors, making the statement that it is exclusively focused on manufacturing incorrect.

Oct/Nov 2017

66. An enterprise in the services sector has an investment in equipment of ₹12 crores and an annual turnover of ₹200 crores. As per the new MSME definition, how will this enterprise be classified?
(A) Medium Enterprise
(B) Small Enterprise
(C) Micro Enterprise
(D) Not an MSME

Ans :

(A) Medium Enterprise
Under the new composite criteria, a Medium Enterprise has an investment not exceeding ₹50 crores and a turnover not exceeding ₹250 crores. The enterprise's investment of ₹12 crores is less than the ₹50 crore limit, and its turnover of ₹200 crores is less than the ₹250 crore limit. Therefore, it qualifies as a Medium Enterprise.

May/June 2008

67. "The government revised the definition of the MSME in 2020, and the new MSME definition includes around 99% of all enterprises. This aims to assist MSMEs in expanding and creating more jobs. Furthermore, the difference between manufacturing and service MSMEs is abolished." Based on this paragraph, what is a primary consequence of the 2020 MSME definition revision?
(A) It drastically reduced the number of enterprises eligible for MSME benefits.
(B) It made the classification system more complex by adding new criteria.
(C) It brought a vast majority of enterprises under the MSME umbrella and simplified classification.
(D) It prioritized service MSMEs over manufacturing MSMEs for government schemes.

Ans :

(C) It brought a vast majority of enterprises under the MSME umbrella and simplified classification.
The paragraph explicitly states that the new definition includes "around 99% of all enterprises" and that the distinction between manufacturing and services was "abolished." This indicates that the revision was expansionary in its coverage and simplified the classification framework, aiming to help more businesses expand and create jobs under the MSME category.

Oct/Nov 2013

68. Identify the correct pair of a Priority Sector Lending target and the corresponding bank type.
(A) Domestic Commercial Banks : 75% of ANBC
(B) Regional Rural Banks : 40% of ANBC
(C) Foreign Banks with < 20 branches : 18% of ANBC
(D) Small Finance Banks : 75% of ANBC

Ans :

(D) Small Finance Banks : 75% of ANBC

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The PSL norms specify a target of 75% of ANBC or CEOBE for Small Finance Banks, aligning with their objective of financial inclusion. The target for Domestic Commercial Banks and Foreign Banks with < 20 branches is 40%, and for Regional Rural Banks, it is 75%. Thus, the pair in option (D) is correctly matched.

May/June 2015

69. Consider the following statements about recent MSME initiatives:

1. The ECLGS scheme provided collateral-free credit of ₹3 lakh crore.
2. The Stand-Up India scheme provides loans up to ₹5 crore to women entrepreneurs.
3. The Udyami Mitra Portal was launched by the RBI.

Which of the statements is/are correct?

(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 only

Statement 1 is correct; ECLGS was a ₹3 lakh crore scheme. Statement 2 is incorrect; Stand-Up India provides loans from ₹10 lakh to ₹1 crore. Statement 3 is incorrect; the Udyami Mitra Portal was launched by SIDBI, not the RBI. Therefore, only the first statement is accurate according to the provided text.

Oct/Nov 2012

70. What is the primary function of the National Manufacturing Competitiveness Programme (NMCP)?

(A) To provide direct financial subsidies for the procurement of raw materials from domestic sources.
(B) To improve the global competitiveness of Indian MSMEs through various process, design, and technology upgrades.
(C) To create and manage a national digital marketplace for MSMEs to sell products directly to consumers.
(D) To create a legal framework and portal to ensure timely payment to MSMEs from all government departments.

Ans :

NODIA

(B) To improve the global competitiveness of Indian MSMEs through various process, design, and technology upgrades.

The National Manufacturing Competitiveness Programme (NMCP) is a comprehensive initiative aimed at enhancing the competitive strength of the Indian MSME sector. Its primary objective is to help MSMEs improve their global competitiveness by providing support for upgrading their processes, product designs, technology, and improving their access to domestic and international markets.

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CHAPTER 5

Infrastructure Including Social Infrastructure

Oct/Nov 2019

1. In the context of Indian infrastructure financing, which model has increasingly become the preferred approach to encourage private sector investment due to the paucity of public resources?
(A) Government Monopoly Model
(B) Public-Private Partnership (PPP) Model
(C) Overseas Development Aid (ODA) Model
(D) 100% Government Spending Model

Ans :

(B) Public-Private Partnership (PPP) Model
To address the scarcity of public funds and the need to redirect government spending towards health and education, the Public-Private Partnership (PPP) model has become the preferred method for developing infrastructure in India. This model encourages private sector investment and expertise, helping to bridge the financing gap for large-scale projects across various sectors.

May/June 2011

2. What is the primary purpose of the National Investment and Infrastructure Fund (NIIF) established by the Government of India?
(A) To improve infrastructure finance and attract private sector investment
(B) To directly fund social welfare schemes like health and education
(C) To provide a platform for foreign governments to offer development aid
(D) To manage government monopolies like railways and nuclear power

Ans :

(A) To improve infrastructure finance and attract private sector investment
The National Investment and Infrastructure Fund (NIIF) was introduced by the Government of India specifically to improve infrastructure financing within the country. It serves as a collaborative investment platform for international and Indian investors, anchored by the government, to channel capital into commercially viable greenfield, brownfield, and stalled infrastructure projects, aligning with the PPP model.

Oct/Nov 2005

3. Which of the following best describes the role of economic infrastructure in fostering economic development?
(A) It primarily focuses on law-enforcement and financial institutions.
(B) It is exclusively concerned with the construction of schools and hospitals.
(C) It facilitates labour and capital mobility and helps in the effective use of scarce resources.
(D) It limits the circulation of commodities to ensure market stability.

Ans :

(C) It facilitates labour and capital mobility and helps in the effective use of scarce resources.
Economic infrastructure is foundational for growth as it encompasses the structures required for long-term development. It enhances productivity by enabling the mobility of labour and capital, facilitating the circulation of raw materials and finished goods, and eliminating inefficiencies. This ultimately leads to a more effective utilization of a nation's scarce economic resources and boosts overall output.

May/June 2025

4. How is 'soft infrastructure' distinguished from 'hard infrastructure'?
(A) Soft infrastructure refers to physical networks such as railways, while hard infrastructure refers to essential institutions such as the legal system.
(B) Soft infrastructure includes tangible assets like roads and ports, while hard infrastructure encompasses intangible systems like education and healthcare.
(C) Soft infrastructure is generally considered temporary or service-based, while hard infrastructure is permanent and consists of physical, long-term assets.

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(D) Soft infrastructure refers to institutions like financial and educational systems, while hard infrastructure refers to physical networks like roads and pipelines.

Ans :

(D) Soft infrastructure refers to institutions like financial and educational systems, while hard infrastructure refers to physical networks like roads and pipelines.
Infrastructure is broadly classified into two types. 'Hard infrastructure' pertains to the major physical networks required for a modern industrial nation, such as roads, ports, airports, and pipelines. In contrast, 'soft infrastructure' refers to the critical institutions that are essential for the economy to function, including financial, educational, healthcare, and law-enforcement organizations.

Oct/Nov 2014

5. Which of the following is NOT considered a component of energy infrastructure?
(A) Natural gas pipelines and storage terminals
(B) Specialized coal handling facilities
(C) Wastewater collection and disposal systems
(D) Renewable energy facilities like wind and solar power

Ans :

(C) Wastewater collection and disposal systems
Energy infrastructure is the organizational framework for large-scale energy transmission from producer to consumer. Its components include natural gas and petroleum pipelines, coal handling facilities, and renewable energy infrastructure like solar and wind power. Wastewater collection and disposal systems are classified under water management infrastructure, not energy infrastructure, as their primary function is sanitation.

May/June 2010

6. According to the data provided, what was the cumulative installed renewable energy (RE) capacity in India, excluding large hydro, by January 2021?
(A) 5.47 GW
(B) 92.54 GW
(C) 64.2 GW
(D) 20.00 GW

Ans :

(B) 92.54 GW
The text states that India achieved a cumulative installed renewable energy capacity of 92.54 GW by January 2021. This figure specifically excludes large hydro projects and highlights the significant progress made in the renewable energy sector. Of this total, 5.47 GW was added during the period from April 2020 to January 2021, showcasing continued growth.

Oct/Nov 2009

7. Between April 2014 and January 2021, by how many times did India's installed solar energy capacity increase?
(A) Two-and-a-half times
(B) Four times
(C) Five times
(D) Fifteen times

Ans :

(D) Fifteen times
During the period from April 2014 to January 2021, India witnessed a remarkable expansion in its renewable energy sector. While the overall installed renewable energy capacity increased by two-and-a-half times, the installed solar energy capacity saw a much more substantial growth, increasing by an impressive fifteen times, reflecting a strong governmental push towards solar power.

May/June 2015

8. As per the Global Trends in Renewable Energy Investment 2020 report, what was the estimated investment attracted by renewable energy programmes and projects in India during the 2014-2019 period?
(A) US 64.2 billion
(B) US 92.5 billion
(C) US 100.0 billion
(D) US 20.0 billion

Ans :

(A) US 64.2 billion
India's focus on renewable energy has attracted significant global investment. According to the Global Trends in Renewable Energy Investment 2020 report, the country's renewable energy programmes and projects attracted an investment of US 64.2 billion, which is equivalent to ₹4.7 lakh crore, during the period from 2014 to 2019, underscoring its position as a key market.

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Oct/Nov 2021

9. What was the first legislative measure taken in India to directly address the issue of water pollution and conservation?
(A) The Environment (Protection) Act, 1986
(B) The National Water Policy, 2012
(C) The Water (Prevention and Control of Pollution) Act, 1974
(D) The Air (Prevention and Control of Pollution) Act, 1981

Ans :

(C) The Water (Prevention and Control of Pollution) Act, 1974
The Water (Prevention and Control of Pollution) Act of 1974 was the pioneering legislative action in India aimed at directly tackling water pollution and promoting water conservation. This act led to the establishment of the Central and State Pollution Control Boards, which are responsible for preventing and controlling water pollution and regulating wastewater discharge into water bodies.

May/June 2006

10. What change was made to the Foreign Direct Investment (FDI) cap in India's telecom sector to boost communication infrastructure?
(A) Increased from 74% to 100%
(B) Increased from 49% to 74%
(C) Decreased from 100% to 74%
(D) Maintained at a constant 49%

Ans :

(A) Increased from 74% to 100%
To stimulate growth and investment in the communications infrastructure, the Government of India took a significant step by increasing the Foreign Direct Investment (FDI) cap in the telecom sector. The limit was raised from the previous 74% to 100%, allowing for full foreign ownership and encouraging greater capital inflow into this critical sector.

Oct/Nov 2016

11. The Government of India approved the Production Incentive Scheme (PLI) in 2020 to boost which specific manufacturing area?
(A) Automobile Manufacturing
(B) Pharmaceutical Manufacturing
(C) Textile Manufacturing
(D) Large-scale Electronics Manufacturing

Ans :

(D) Large-scale Electronics Manufacturing
As part of its initiatives to strengthen the communications and electronics ecosystem, the government approved the Production Incentive Scheme (PLI) in 2020. This scheme was specifically targeted at promoting Large-scale Electronics Manufacturing within the country, aiming to attract investments, boost domestic production, and reduce reliance on imports for electronic goods and components.

NODIA

May/June 2020

12. What is the objective of the 'Tarang Sanchar' web portal launched by the Department of Telecommunication?
(A) To provide broadband connectivity to gram panchayats
(B) To share information on mobile towers and EMF Emission Compliances
(C) To facilitate online application for new mobile connections
(D) To auction telecom spectrum to service providers

Ans :

(B) To share information on mobile towers and EMF Emission Compliances
The 'Tarang Sanchar' web portal is a public information initiative by the Department of Telecommunication. Its primary objective is to provide citizens with access to information regarding mobile towers located in any area and whether they comply with the electromagnetic field (EMF) emission norms defined by the government, thereby addressing public concerns about radiation.

Oct/Nov 2012

13. The National Optical Fiber Network (NOFN) project aims to provide broadband connectivity to 2.5 lakh gram panchayats. What is the approved cost of this project?
(A) ₹10,000 crores
(B) ₹50,000 crores
(C) ₹20,000 crores
(D) ₹1,00,000 crores

Ans :

(C) ₹20,000 crores
The government approved the National Optical Fiber Network (NOFN) project with a substantial

cost of ₹20,000 crores. The project's ambitious goal is to create a robust digital infrastructure by providing broadband connectivity to 2.5 lakh gram panchayats across India, enabling the delivery of various e-services like eHealth, e-education, and e-governance to rural areas.

May/June 2024

14. Which of the following would be classified under 'critical infrastructure'?
(A) Public parks and libraries
(B) Sports stadiums and concert halls
(C) Museums and art galleries
(D) Financial services like banking and clearing

Ans :

(D) Financial services like banking and clearing
Critical infrastructure refers to the assets, systems, and networks on which the broader economy is heavily dependent. This category includes essential services such as electricity generation, telecommunication, water supply, transportation systems, and financial services like banking and clearing. Public parks and museums, while important, are not considered critical for the immediate functioning of the economy.

Oct/Nov 2017

15. According to a March 2021 report by the Central Pollution Control Board, what is India's approximate current sewage treatment capacity?
(A) 18.6%
(B) 27.3%
(C) 5.2%
(D) 50.1%

Ans :

(A) 18.6%
A report from the Central Pollution Control Board in March 2021 highlighted the significant gap in India's wastewater management infrastructure. The report stated that the country's current sewage treatment capacity is only 18.6%. It also noted that an additional 5.2% capacity was in the process of being added to address this shortfall.

May/June 2008

16. Which of the following is described as India's largest infrastructure investment program, with an investment of more than US $100 billion?
(A) PM Gati Shakti
(B) Bharatmala Pariyojana
(C) Smart Cities Mission
(D) National Optical Fiber Network (NOFN)

Ans :

(B) Bharatmala Pariyojana
The Bharatmala Pariyojana is identified as India's largest infrastructure investment program, commanding an investment of over US $100 billion. This massive initiative is focused on the roads sector and represents one of the most attractive investment opportunities in the country's infrastructure landscape, aiming to optimize the efficiency of freight and passenger movement across India.

Oct/Nov 2011

17. What is the core concept behind the PM Gati Shakti National Master Plan?
(A) To provide direct financial aid for building social infrastructure like new hospitals and schools nationwide.
(B) To create a digital platform for integrated planning and coordinated implementation of infrastructure connectivity projects.
(C) To exclusively fund the development of high-speed passenger and freight rail networks across major corridors.
(D) To manage the equitable distribution of renewable energy from producing states to consuming states via a national grid.

Ans :

(B) To create a digital platform for integrated planning and coordinated implementation of infrastructure connectivity projects.
PM Gati Shakti is a National Master Plan designed to revolutionize infrastructure development. It is essentially a digital platform that brings together 16 Ministries, including Railways and Roadways, for integrated planning and coordinated execution. The goal is to provide seamless multi-modal connectivity for people, goods, and services, reducing logistics costs and travel time.

May/June 2013

18. As part of the PM Gati Shakti plan, what is the target for the expansion of the National Highways Network in the year 2022-23?
(A) 25,000 km
(B) 10,000 km
(C) 15,000 km
(D) 20,000 km

Ans :

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(A) 25,000 km

A key highlight of the PM Gati Shakti initiative, as announced in the Union Budget 2022-23, is the ambitious target set for road transport. The plan aims to expand the National Highways Network by 25,000 km during the fiscal year 2022-23. To achieve this, an amount of ₹20,000 crore is to be mobilized.

Oct/Nov 2022

19. Under the Railways component of the PM Gati Shakti plan, what is the 'Kavach' technology intended for?

(A) A new ticketing and reservation system for passengers
(B) A system for real-time tracking of freight wagons and cargo
(C) An indigenous world-class technology for capacity augmentation and safety
(D) A high-speed Wi-Fi service for passengers on trains and at stations

Ans :

(C) An indigenous world-class technology for capacity augmentation and safety

Within the PM Gati Shakti framework for railways, 'Kavach' is highlighted as an indigenous, world-class technology. Its purpose is to enhance safety and augment capacity on the rail network. The plan includes bringing 2,000 km of the railway network under the 'Kavach' system in 2022-23 as part of its modernization and safety enhancement efforts.

May/June 2022

20. The "One Station One Product" concept is an initiative under PM Gati Shakti aimed at which of the following?

(A) Helping local businesses and supply chains
(B) Standardizing passenger amenities at all railway stations
(C) Creating a single freight terminal in each state
(D) Designating one major product for export from each station

Ans :

(A) Helping local businesses and supply chains

The "One Station One Product" concept is a railway initiative designed to support the local economy. The idea is to provide a market for indigenous and local products by making them available for sale at railway stations. This helps promote local businesses, artisans, and farmers by leveraging the vast network and footfall of the Indian Railways.

Oct/Nov 2007

21. What is the target number of new generation Vande Bharat Trains to be manufactured over the next three years as part of the PM Gati Shakti plan?

(A) 100
(B) 200
(C) 500
(D) 400

Ans :

(D) 400

As a significant push towards modernizing passenger travel, the PM Gati Shakti plan includes a major production goal for semi-high-speed trains. The government has set a target to manufacture 400 new generation Vande Bharat Trains over the next three years. These trains are known for their enhanced speed, safety features, and passenger comfort.

May/June 2019

22. The National Ropeways Development Program, which is to be taken up on a PPP mode, is known by what name?

(A) Bharatmala
(B) Parvatmala
(C) Sagarmala
(D) Gati Shakti

Ans :

(B) Parvatmala

The National Ropeways Development Program, aimed at developing ropeway infrastructure, is named 'Parvatmala'. This program is to be implemented using the Public-Private Partnership (PPP) model. The plan for 2022-23 included awarding contracts for 8 ropeway projects with a total length of 60 km, focusing on improving connectivity in hilly and difficult terrains.

Oct/Nov 2015

23. In the context of India's economy, what is the approximate contribution of its urban areas to the national GDP?

(A) Less than 1/3 of GDP
(B) Approximately 1/2 of GDP
(C) Over 2/3 of GDP

NODIA

(D) Over 90% of GDP

Ans :

(C) Over 2/3 of GDP
Urban areas in India play a disproportionately large role in the national economy. Despite housing less than one-third of the country's population, India's towns and cities generate over 2/3 of the nation's Gross Domestic Product (GDP). Furthermore, these urban centers account for a staggering 90% of total government revenues, highlighting their economic significance.

May/June 2017

24. Which two major urban renewal programs were jointly planned and launched by the Government of India to transform urban living conditions through infrastructure upgradation?
(A) JNNURM and Pradhan Mantri Awas Yojana
(B) Swachh Bharat Mission and HRIDAY
(C) Bharatmala Pariyojana and Sagarmala Project
(D) Smart Cities Mission and AMRUT

Ans :

(D) Smart Cities Mission and AMRUT
The Government of India jointly planned and launched the Smart Cities Mission and the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) to holistically address urban infrastructure deficits. The Smart Cities Mission focuses on modernizing 100 selected cities, while AMRUT aims to provide basic services and amenities to improve the quality of life in urban areas.

Oct/Nov 2024

25. Which of a following is an example of 'Green Infrastructure'?
(A) Wildlife sanctuaries and green belts
(B) A solar power plant
(C) A water recycling facility
(D) A public park with LED lighting

Ans :

(A) Wildlife sanctuaries and green belts
Green infrastructure is a concept that emphasizes the value of the natural environment and the life support services provided by a network of natural ecosystems. Examples explicitly include green belts, wildlife sanctuaries, environmentally sensitive areas, various animal reserves (tiger, lion, elephant), bird sanctuaries, and the conservation of natural landscapes like the Western Ghats.

May/June 2007

26. Which of the following statements about the 'social sector' in India is INCORRECT?
(A) It is primarily focused on financial services and stock market regulation.
(B) It includes components like health, education, and sanitation.
(C) Expenditure on social sector elements is an indicator of government commitment.
(D) It contributes to general human development.

Ans :

(A) It is primarily focused on financial services and stock market regulation.
The social sector in India is very broad and comprises key components crucial for human development, such as health, education, poverty reduction, sanitation, and housing. Financial services and market regulation fall under soft economic infrastructure, not the social sector, which is more directly concerned with societal welfare and human capital development.

Oct/Nov 2006

27. What were the approximate literacy rate and life expectancy in India at the time of independence?
(A) Literacy 74%, Life Expectancy 70 years
(B) Literacy 32.5%, Life Expectancy 17 years
(C) Literacy 17%, Life Expectancy 32.5 years
(D) Literacy 50%, Life Expectancy 50 years

Ans :

(C) Literacy 17%, Life Expectancy 32.5 years
During the pre-independence era, the social sector was largely neglected, which had a negative impact on the economy. At the time of independence, India's social indicators were very poor. The literacy level was barely 17%, and the life expectancy at birth was only 32.5 years, reflecting the underdeveloped state of its social infrastructure.

May/June 2016

28. During the pandemic, the expenditure on social services by the Centre and States as a proportion of GDP increased to what level?
(A) Nearly 2.1%
(B) Nearly 6.6%
(C) Nearly 3.1%
(D) Nearly 9%

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Ans :

(D) Nearly 9%
The COVID-19 pandemic prompted a significant increase in government spending on social services to mitigate its impact. The combined expenditure on social services (including health, education, and others) by the Centre and the States as a proportion of the Gross Domestic Product (GDP) saw a substantial rise, reaching a level of nearly 9%.

Oct/Nov 2025

29. What do the letters in the acronym 'ESG' stand for in the context of corporate social responsibility and investment screening?
(A) Environmental, Social, and Governance
(B) Economic, Societal, Governmental
(C) Equity, Sustainability, and Growth
(D) Efficiency, Security, and Globalization

Ans :

(A) Environmental, Social, and Governance
ESG stands for Environmental, Social, and Governance. These are the three essential factors used to measure the long-term ethical and sustainable impact of a business or an investment. Socially responsible investors widely use ESG criteria to screen potential investments, ensuring that companies align with principles of sustainability, ethical conduct, and good corporate governance.

May/June 2005

30. According to the Economic Survey 2021-22, the healthcare sector's budgeted spending of ₹4.7 lakh crore in 2021-22 accounted for approximately what percentage of GDP?
(A) 2.1 per cent
(B) 1.5 per cent
(C) 3.1 per cent
(D) 6.6 per cent

Ans :

(A) 2.1 per cent
The Economic Survey 2021-22 provided key figures on healthcare spending. The budgeted expenditure for the healthcare sector in 2021-22 was ₹4.7 lakh crore. This amount accounted for approximately 2.1 per cent of the Gross Domestic Product (GDP) and 6.6 per cent of the total government expenditure for that fiscal year.

Oct/Nov 2020

31. What is the target set by the 2017 National Health Policy for government health spending as a percentage of GDP by the year 2025?
(A) 1.5 per cent
(B) 2.0 per cent
(C) 3.0 per cent
(D) 2.5 per cent

Ans :

(D) 2.5 per cent
The National Health Policy of 2017 outlined a clear objective to increase public investment in the healthcare sector. The policy aimed to boost government health spending to 2.5 per cent of the Gross Domestic Product (GDP) by the year 2025. This target reflects a commitment to strengthening the public health system and improving healthcare accessibility.

May/June 2018

32. What is the outlay of the Ayushman Bharat Health Infrastructure Mission, a Centrally Sponsored Scheme announced in the Union Budget 2021-22, to be implemented over five years?
(A) ₹20,000 crores
(B) ₹64,180 crores
(C) ₹92,540 crores
(D) ₹4.7 lakh crores

Ans :

(B) ₹64,180 crores
The Ayushman Bharat Health Infrastructure Mission was launched as a new Centrally Sponsored Scheme with a significant financial commitment. The scheme has an outlay of approximately ₹64,180 crores, which is to be implemented over the next five years to develop capacities of primary, secondary, and tertiary care health systems across the country.

Oct/Nov 2013

33. The Constitution (Eighty-sixth Amendment) Act of 2002 incorporated which article to make free and compulsory education a Fundamental Right for children?
(A) Article 45
(B) Article 21-A
(C) Article 51-A
(D) Article 19

Ans :

(B) Article 21-A

NODIA

The 86th Amendment Act of 2002 was a landmark step for education in India. It incorporated Article 21-A into the Constitution, establishing the right to education as a Fundamental Right. This article mandates the State to provide free and compulsory education to all children in the age group of 6 to 14 years.

May/June 2009

34. According to the Economic Survey 2021-22, what was the budgeted spending in the education sector as a percentage of GDP for 2021-22?
(A) 2.1 per cent
(B) 6.6 per cent
(C) 9.7 per cent
(D) 3.1 per cent

Ans :

(D) 3.1 per cent
As per the data from the Economic Survey 2021-22, the budgeted spending for the education sector in the fiscal year 2021-22 was ₹6.97 lakh crore. This expenditure accounted for almost 3.1 per cent of the Gross Domestic Product (GDP) and 9.7 per cent of the total government expenditure for that year.

Oct/Nov 2010

35. The National Education Policy 2020 replaces the 10+2 structure with a new pedagogical and curricular framework. What is this new framework?
(A) 5+3+3+4
(B) 5+4+3+3
(C) 3+5+3+4
(D) 4+3+3+5

Ans :

(A) 5+3+3+4
The National Education Policy (NEP) 2020 introduces a major restructuring of the school education system. It replaces the long-standing 10+2 structure with a new 5+3+3+4 framework. This new system corresponds to ages 3-8 (foundational stage), 8-11 (preparatory), 11-14 (middle), and 14-18 (secondary), including 3 years of Anganwadi/pre-school education.

May/June 2021

36. Which of the following is NOT one of the four pillars on which the National Education Policy (NEP) 2020 is built?
(A) Accessibility
(B) Affordability
(C) Equity
(D) Accountability

Ans :

(B) Affordability
The National Education Policy (NEP) 2020 is founded on four core pillars that guide its reforms. These pillars are accessibility, equity, quality, and accountability. While the policy aims to make education accessible to all, 'affordability' is not listed as one of its four foundational pillars, though it is an implicit goal of public education.

Oct/Nov 2008

37. In what year did India become the first country in the world to implement a National Programme for Family Planning?
(A) 1947
(B) 1950
(C) 1961
(D) 1952

Ans :

(D) 1952
India holds the distinction of being a pioneer in state-sponsored population management efforts. It became the very first country in the world to launch a National Programme for Family Planning. This significant public health initiative was implemented in the year 1952, with the primary goal of stabilizing the country's population growth over the long term.

May/June 2012

38. What is the core and fundamental goal of the Family Welfare Programme in India?
(A) To achieve population management and stabilization
(B) To provide free health insurance to all citizens
(C) To ensure 100% institutional deliveries
(D) To focus exclusively on child immunisation

Ans :

(A) To achieve population management and stabilization
While the Family Welfare Programme in India addresses a broad range of healthcare needs, including maternal and child health, its core and fundamental objective is population management. The primary goal is to stabilize the population by promoting voluntary family

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planning methods, providing necessary services, and improving awareness through information, education, and communication (IEC) campaigns.

Oct/Nov 2023

39. Identify the INCORRECT statement regarding the fundamental premises of India's Family Welfare Programme.
(A) Acceptance of Family Welfare services is voluntary.
(B) It aims to provide integrated Maternal and Child Health (MCH) and family planning services.
(C) Services are provided at a subsidized cost to urban populations.
(D) It strives for easy and convenient access to its services free of cost.

Ans :

(C) Services are provided at a subsidized cost to urban populations.
The fundamental premises of the Family Welfare Programme emphasize its voluntary nature and accessibility. It aims to provide integrated MCH and family planning services, along with effective IEC, for free. The statement that services are provided at a subsidized cost is incorrect, as the program's premise is to offer these services free of cost.

May/June 2014

40. Which of the following is NOT listed as a basic area of health infrastructure?
(A) Public relations and marketing agencies
(B) Skilled labour
(C) Integrated electronic information systems
(D) Public health agencies, resources, and research

Ans :

(A) Public relations and marketing agencies
The five basic areas that constitute health infrastructure are skilled labour (doctors, nurses), integrated electronic information systems, public health agencies, adequate resources (financial and physical), and research. Public relations and marketing agencies are not considered a fundamental component of the core health infrastructure, which focuses on service delivery, management, and knowledge creation.

NODIA

Oct/Nov 2018

41. What is the primary purpose of the Ayushman Bharat Digital Mission (ABDM), formerly known as the National Digital Health Mission (NDHM)?
(A) To provide free telemedicine consultations and prescription services to all citizens in urban areas.
(B) To create a public-private partnership for the domestic manufacturing of essential medical devices and equipment.
(C) To directly fund the construction of new tertiary care hospitals and trauma centers in rural districts.
(D) To establish the backbone for an integrated digital health infrastructure for the country.

Ans :

(D) To establish the backbone for an integrated digital health infrastructure for the country.
The Ayushman Bharat Digital Mission (ABDM) was launched in 2021 with the specific purpose of creating the necessary backbone to support an integrated digital health infrastructure for the country. It aims to connect patients, doctors, and healthcare facilities digitally, facilitating seamless access to health records and services, thereby improving efficiency and continuity of care.

May/June 2023

42. Assertion (A): The availability of high-quality infrastructure leads to a rise in a nation's output and productivity.
Reason (R): Infrastructure facilitates the circulation of commodities and raw materials, eliminates inefficiencies, and enables the effective use of scarce resources.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
High-quality infrastructure is directly linked to increased economic output and productivity. The reason for this is that robust infrastructure, such as roads and ports, allows for the smooth and efficient movement of goods and raw materials. This reduces logistical bottlenecks, minimizes

waste, and ensures that resources are used more effectively, thereby boosting overall economic efficiency.

Oct/Nov 2016

43. Consider the following statements about infrastructure in India:

1. Historically, infrastructure in India has always been funded by the private sector.
2. The National Investment and Infrastructure Fund (NIIF) was introduced to improve infrastructure finance.

Which of the statements given above is/are correct?

(A) 1 only
(B) 2 only
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(B) 2 only

Statement 1 is incorrect; historically, infrastructure in India was funded by the government. The shift towards private investment is a more recent trend. Statement 2 is correct; the NIIF was indeed established by the government to act as a catalyst for infrastructure finance, attracting both domestic and international private capital into the sector.

May/June 2011

44. Consider the following statements regarding India's renewable energy sector:

1. India ranks 4th globally in RE power capacity and 5th in Solar Power capacity.
2. Between 2014 and 2019, renewable energy projects in India attracted over US 100 billion in investment.
3. The installed solar energy capacity increased 15 times between April 2014 and January 2021.

Which of the statements given above is/are correct?

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(C) 1 and 3 only

Statement 1 is correct, as India stands 4th in RE and Wind power, and 5th in Solar power capacity. Statement 3 is also correct, with solar capacity growing 15-fold in the specified period. However, Statement 2 is incorrect; the investment attracted during 2014-2019 was US 64.2 billion, not over US 100 billion.

Oct/Nov 2020

45. Match List-I (Government Initiative) with List-II (Description).

List-I

P. PM Gati Shakti
Q. Parvatmala
R. Bharatmala Pariyojana
S. AMRUT

List-II

1. National Ropeways Development Program
2. India's largest road infrastructure investment program
3. National Master Plan for Multi-modal Connectivity
4. Mission to transform urban living conditions

Code:

(A) P-3, Q-1, R-2, S-4
(B) P-2, Q-4, R-1, S-3
(C) P-3, Q-2, R-4, S-1
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-3, Q-1, R-2, S-4

PM Gati Shakti is the National Master Plan for Multi-modal Connectivity. Parvatmala is the name for the National Ropeways Development Program. Bharatmala Pariyojana is the largest road infrastructure program with over US $100 billion in investment. AMRUT (Atal Mission for Rejuvenation and Urban Transformation) is a program designed to upgrade urban infrastructure and living conditions.

May/June 2015

46. Which of the following statements is INCORRECT regarding urban infrastructure in India?

(A) Urban areas account for less than 50% of government revenues.
(B) Urban areas generate over 2/3 of the country's GDP.
(C) Environmental safeguards are a major reason for delays in power sector projects.
(D) The Smart Cities Mission aims to modernize 100 selected cities.

Ans :

(A) Urban areas account for less than 50% of government revenues.

NODIA

The contribution of urban areas to India's economy is substantial. They generate over 2/3 of the GDP and, critically, account for 90% of government revenues, despite housing less than 1/3 of the population. Therefore, the statement that they account for less than 50% of government revenues is incorrect, as the actual figure is much higher.

Oct/Nov 2025

47. Investing in human capital through education, skill development, and healthcare provision is known to have which primary effect?

(A) It decreases the need for hard infrastructure.
(B) It primarily benefits the pre-independence economic structure.
(C) It increases labour productivity and societal welfare.
(D) It leads to a decrease in government expenditure on social services.

Ans :

(C) It increases labour productivity and societal welfare.
Investments in human capital, such as education, training, and healthcare, are critical for economic growth. Such investments directly enhance the skills, knowledge, and health of the workforce, which in turn leads to increased labour productivity. This improvement in individual capacity contributes to overall societal welfare and long-term economic development, demonstrating positive externalities associated with social infrastructure.

May/June 2005

48. Identify the correct pair from the following options:

(A) Social Infrastructure : Health and education facilities
(B) Hard Infrastructure : Law-enforcement organisations
(C) Soft Infrastructure : Seaports and airports
(D) Green Infrastructure : National highway network

Ans :

(A) Social Infrastructure : Health and education facilities
Social infrastructure comprises the facilities and services that support human development and social welfare. Health and education facilities are quintessential examples of social infrastructure. Hard infrastructure refers to physical networks like seaports, soft infrastructure to institutions like law enforcement, and green infrastructure to natural ecosystems, making the other pairs incorrect based on their definitions.

Oct/Nov 2014

49. Which of the following statements about India's social indicators is correct?

(A) Life expectancy at independence was 70 years, and it is now 32.5 years.
(B) The literacy rate at independence was 74.04% and has now fallen to 17%.
(C) The literacy rate has improved from approximately 17% at independence to 74.04% now.
(D) Life expectancy has remained unchanged since independence.

Ans :

(C) The literacy rate has improved from approximately 17% at independence to 74.04% now.
India has made significant strides in improving its social indicators since independence. The literacy rate, which was at a very low level of barely 17% per cent, has now increased to 74.04% per cent. Similarly, life expectancy has more than doubled from 32.5 years to 70 years, reflecting substantial improvements in health and education infrastructure.

May/June 2019

50. What are the three main characteristics used to describe the health disparities that exist in India due to uneven infrastructure distribution?

(A) Institution, knowledge capacity, and healthcare service
(B) Cost, quality, and accessibility
(C) Urban, rural, and suburban
(D) Public, private, and PPP

Ans :

(A) Institution, knowledge capacity, and healthcare service
Health disparities across different states in India are a result of the uneven distribution of health infrastructure. These disparities are primarily characterized by three factors: (a) the availability and quality of institutions (hospitals, clinics), (b) the knowledge capacity (skilled professionals, research), and (c) the level and reach of healthcare services being provided to the population.

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Oct/Nov 2010

51. Consider the following statements:
Statement 1: The primary goal of the Family Welfare programme is to offer high-quality health services, including immunisation.
Statement 2: Population management is the core and fundamental goal of the Family Welfare programme.
(A) Statement 1 is correct and Statement 2 is incorrect.
(B) Statement 1 is incorrect and Statement 2 is correct.
(C) Both statements are correct.
(D) Both statements are incorrect.

Ans :

(C) Both statements are correct.
Both statements accurately describe the objectives of the Family Welfare programme. While its primary goal is to stabilize the population, this is achieved by offering a suite of high-quality health services, which prominently include immunisation for pregnant women and children, and integrated MCH services. Therefore, population management is the core goal, and providing health services is the method.

May/June 2007

52. Which of the following is NOT a challenge plaguing India's health infrastructure?
(A) Inadequate financial resources
(B) An excess of skilled labour and medical professionals
(C) Lack of efficient personnel and materials planning
(D) Poor facilities and inadequate physical infrastructures

Ans :

(B) An excess of skilled labour and medical professionals
India's health infrastructure faces numerous challenges, including inadequate financial resources, poor facilities, lack of efficient planning for personnel and materials, and transportation issues. A shortage, not an excess, of skilled labour and medical professionals, especially in rural and underserved areas, is one of the critical problems, making the claim of an excess an incorrect description of the situation.

Oct/Nov 2012

53. Which of the following are key highlights of the PM Gati Shakti project?
1. Expansion of National Highways Network by 25,000 km in 2022-23.
2. Manufacturing of 400 new generation Vande Bharat Trains.
3. Implementation of Multimodal Logistics Parks at four locations.
4. Bringing 5,000 km of railway network under 'Kavach' technology in 2022-23.

Select the correct answer using the code given below:
(A) 1, 2 and 3 only
(B) 2, 3 and 4 only
(C) 1 and 4 only
(D) 1, 2, 3 and 4

Ans :

(A) 1, 2 and 3 only
The PM Gati Shakti project includes expanding the NH network by 25,000 km, manufacturing 400 Vande Bharat trains, and implementing Multimodal Logistics Parks at four locations. Statement 4 is incorrect; the plan is to bring 2,000 km of the railway network under 'Kavach' technology in 2022-23, not 5,000 km, making it an inaccurate detail.

NODIA

May/June 2018

54. Based on the data in Table 5.1, what was the trend of expenditure on Health as a percentage of GDP from 2019-20 to 2021-22 (BE)?
(A) It decreased from 1.4% to 1.3%.
(B) It remained constant at 1.3%.
(C) It increased from 1.8% to 2.1%.
(D) It increased from 1.3% to 2.1%.

Ans :

(D) It increased from 1.3% to 2.1%.
According to the table, under the "As percentage to GDP" section, the expenditure on Health was 1.3% in 2019-20. It then increased to 1.8% in 2020-21 (RE) and further to 2.1% in 2021-22 (BE). This shows a clear and significant increasing trend over the specified period, likely influenced by the pandemic.

Oct/Nov 2008

55. As per Table 5.1, what was the expenditure on Education as a percentage of total expenditure in the year 2020-21 (RE)?
(A) 9.5%

(B) 10.7%
(C) 9.7%
(D) 25.0%

Ans :

(A) 9.5%
To find the answer, one must look at the row for "i) Education" under the section "(As percentage to total expenditure)". In the column for "2020-21 (RE)", the value provided is 9.5%. This indicates that for the revised estimates of 2020-21, spending on education constituted 9.5% of the total budgetary expenditure of the government.

May/June 2024

56. According to the data in Table 5.1, which component of social services consistently accounted for the largest share of expenditure on social services between 2014-15 and 2021-22 (BE)?
(A) Education
(B) Health
(C) Others
(D) Education and Health combined

Ans :

(A) Education
By examining the "(As percentage to social services)" section of the table, it is clear that the expenditure on "i) Education" is consistently the highest percentage each year. For instance, it was 46.1% in 2014-15 and 36.6% in 2021-22 (BE), always remaining significantly larger than the shares for "Health" and "Others" throughout the entire period.

Oct/Nov 2017

57. Based on the notes accompanying Table 5.1, which of the following is included in the expenditure on 'Health'?
(A) Only Medical and Public Health
(B) Only Family Welfare and Nutrition
(C) Only expenditure on Ayushman Bharat scheme
(D) Medical and Public Health, Family Welfare, and Water Supply and Sanitation

Ans :

(D) Medical and Public Health, Family Welfare, and Water Supply and Sanitation
The footnote in the source explicitly defines the composition of the 'Health' expenditure category. It states that the expenditure on 'Health' includes expenditure on 'Medical and Public Health', 'Family Welfare', and 'Water Supply and Sanitation'. This provides a broader definition than just medical services, encompassing preventive and related public health infrastructure as well.

May/June 2006

58. Using the data from Table 5.1, what was the approximate absolute increase in Total Expenditure on Social Services from 2014-15 to 2021-22 (BE)?
(A) ₹11.38 lakh crore
(B) ₹7.68 lakh crore
(C) ₹19.06 lakh crore
(D) ₹2.71 lakh crore

Ans :

(A) ₹11.38 lakh crore
To calculate the increase, we use the values from the "Expenditure on Social Services" row in the "(in lakh crore)" section. The expenditure was ₹7.68 lakh crore in 2014-15 and is budgeted to be ₹19.06 lakh crore in 2021-22 (BE). The increase is ₹19.06 - ₹7.68 = ₹11.38 lakh crore.

Oct/Nov 2022

59. A European telecom firm is planning a major investment in India to acquire a 100% stake in a domestic mobile network operator. Based on the government's initiatives to boost communication infrastructure, is this investment permissible?
(A) No, as the FDI cap is limited to 74%.
(B) No, as foreign firms are not allowed to own a majority stake.
(C) Yes, as the FDI cap in the telecom sector has been increased to 100%.
(D) Yes, but only if it forms a joint venture with a government-owned enterprise.

Ans :

(C) Yes, as the FDI cap in the telecom sector has been increased to 100%.
The scenario describes a 100% acquisition by a foreign firm. The chapter explicitly states that to boost communication infrastructure, the government increased the FDI cap in the telecom sector from 74% to 100%. Therefore, the proposed investment is permissible under the current policy, allowing for full foreign ownership in the sector.

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May/June 2013

60. A state government aims to digitize its land records and provide e-health services to its most remote villages, which currently lack internet access. Which central government project, costing ₹20,000 crores, directly supports this state-level objective?
(A) The National Optical Fiber Network (NOFN)
(B) The Smart Cities Mission
(C) The Bharatmala Pariyojana
(D) The Ayushman Bharat Digital Mission (ABDM)

Ans :

(A) The National Optical Fiber Network (NOFN)
The case describes a need for rural broadband connectivity to enable e-governance and e-health. The National Optical Fiber Network (NOFN) project is designed precisely for this purpose. Its stated goal is to provide broadband connectivity to 2.5 lakh gram panchayats, creating the necessary infrastructure for applications like eHealth, e-education, and e-governance in rural India.

Oct/Nov 2009

61. A logistics company's strategy team is analyzing future national infrastructure projects to optimize its freight movement. They are particularly interested in a master plan that integrates 16 ministries, including Roadways and Railways, for seamless connectivity. Which program should be the focus of their analysis?
(A) AMRUT
(B) Parvatmala
(C) National Health Mission
(D) PM Gati Shakti

Ans :

(D) PM Gati Shakti
The case highlights the need for integrated planning across different modes of transport like road and rail. PM Gati Shakti is the National Master Plan specifically created for this. It is a digital platform designed to bring 16 ministries together for coordinated implementation of infrastructure projects, ensuring multi-modal and last-mile connectivity, which is crucial for a logistics company.

May/June 2022

62. An educational trust is updating its school's entire curriculum from pre-school to senior secondary level to align with the latest national policy. Instead of the old 10+2 system, they must now structure their programs according to which new framework?
(A) A 10+2+3 framework including college
(B) A 5+3+3+4 framework including pre-school
(C) An 8+4 framework for primary and secondary
(D) A 10+5 framework with vocational training

Ans :

(B) A 5+3+3+4 framework including pre-school
The case requires applying the new educational structure mentioned in the chapter. The National Education Policy 2020 replaces the old 10+2 structure with a new 5+3+3+4 curricular framework. This new system covers 12 years of schooling and 3 years of Anganwadi/pre-school, which is exactly what the educational trust needs to adopt for its reforms.

Oct/Nov 2024

63. A municipal corporation is developing a new satellite city. Its engineers are planning roads, water distribution networks, and sewage systems. However, the city planners are also allocating space for public libraries, parks, and community pools. These latter assets would be classified as what type of municipal infrastructure?
(A) Hard infrastructure assets
(B) Critical infrastructure assets
(C) Soft infrastructure assets
(D) Green infrastructure assets

Ans :

(C) Soft infrastructure assets
The case distinguishes between two types of municipal assets. While roads and water systems are 'hard' infrastructure, the chapter specifies that urban or municipal infrastructure may also contain certain 'soft' astructure assets. The examples given, such as parks, public pools, and libraries, fall directly into this category of soft assets provided by municipalities.

May/June 2020

64. Identify the INCORRECT pair from the following government initiatives and their focus areas.
(A) PLI Scheme : Large-scale Electronics Manufacturing
(B) Tarang Sanchar : Mobile tower and EMF emission information
(C) NOFN : Broadband connectivity for gram panchayats

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(D) Parvatmala : National Highways Development

Ans :

(D) Parvatmala : National Highways Development
The pairing for Parvatmala is incorrect. Parvatmala is the National Ropeways Development Program, designed to improve connectivity in hilly areas through ropeways. The development of National Highways is primarily associated with programs like the Golden Quadrilateral and Bharatmala Pariyojana. The other pairs correctly match the initiative with its specific focus area as described in the chapter.

Oct/Nov 2011

65. Which of the following is the most appropriate description of 'Green Infrastructure'?
(A) A concept that highlights the value of the natural environment and ecosystems.
(B) Infrastructure projects that are funded through green bonds.
(C) Any urban infrastructure that utilizes renewable energy sources.
(D) The network of waste management and recycling facilities in a country.

Ans :

(A) A concept that highlights the value of the natural environment and ecosystems.
Green infrastructure is a concept that emphasizes and values the life support services provided by a network of natural ecosystems. It is not just about using green technology but about preserving and leveraging natural environments themselves. Examples include green belts, wildlife sanctuaries, and conservation of areas like the Western Ghats, which provide essential ecological services.

May/June 2017

66. Which of the following statements concerning the development of health infrastructure in India are correct?
1. The PM-Ayushman Bharat Health Infrastructure Mission (PM-ABHIM) is the largest pan-India public health infrastructure initiative since 2005.
2. Inadequate financial resources and a lack of skilled labour are major challenges.
3. The Ayushman Bharat Digital Mission (ABDM) aims to create an integrated digital health infrastructure.
4. Health disparities between states are primarily linked to economic growth.

Select the correct answer using the code given below:
(A) 1, 2 and 3 only
(B) 2, 3 and 4 only
(C) 1, 3 and 4 only
(D) 1, 2, 3 and 4

Ans :

(D) 1, 2, 3 and 4
All four statements are correct. PM-ABHIM is described as the largest initiative since 2005. Inadequate resources and lack of skilled labour are listed as key challenges. ABDM's purpose is to build the digital health backbone. The chapter explicitly links the challenges of health disparities (institution, knowledge, service) to economic growth, making all statements valid.

Oct/Nov 2005

67. Assertion (A): The government of India has made attempts to encourage private sector investment in infrastructure.
Reason (R): The government faces a paucity of public resources and sees a necessity to redirect its precious resources to sectors like health and education.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that the government is encouraging private investment is true. The reason provided is the exact justification given in the chapter: a scarcity (paucity) of public funds and the strategic need to prioritize government spending on critical social sectors like health and education. Therefore, the reason correctly explains the assertion, reflecting a major policy shift.

May/June 2021

68. Which of the following is NOT a component of the Family Welfare Programme mentioned in the text?
(A) Janani Surakshya Yojana
(B) Green card scheme

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(C) LHV (lady health visitor)
(D) Pradhan Mantri Jeevan Jyoti Bima Yojana

Ans :

(D) Pradhan Mantri Jeevan Jyoti Bima Yojana
The text provides a list of components and related schemes under the family welfare umbrella. This list includes the Janani Surakshya Yojana, the green card scheme, and the role of the LHV (lady health visitor). Pradhan Mantri Jeevan Jyoti Bima Yojana is a government-backed life insurance scheme and is not mentioned as part of the family welfare programme.

Oct/Nov 2023

69. Consider the following statements about ESG:
1. ESG stands for Environmental, Social, and Governance.
2. It is considered a modern dimension of corporate social responsibility.
3. Socially responsible investors use ESG criteria to screen investments.
4. In the Indian context, it has no relevance for the banking sector.

Which of the statements given above are correct?
(A) 1 and 2 only
(B) 1, 2 and 3 only
(C) 3 and 4 only
(D) 1, 2, 3 and 4

Ans :

(B) 1, 2 and 3 only
Statements 1, 2, and 3 are all correct descriptions of ESG as provided in the text. Statement 4 is incorrect. The text explicitly mentions that in the Indian context, banks are expected to treat customers well and disclose data on diversity, human rights, and LGBT equality, linking ESG principles directly to the banking sector's governance.

May/June 2025

70. What are the two main objectives of the Family Welfare programme in India?
(A) To stabilise the population and offer high-quality health services
(B) To increase literacy and provide employment
(C) To build hospitals and ensure free medicine
(D) To promote medical tourism and increase health insurance penetration

Ans :

(A) To stabilise the population and offer high-quality health services
The chapter clearly states that the primary goal of the Family Welfare programme is to stabilise the population. This core objective is pursued by offering high-quality health services, which include crucial elements like the immunization of pregnant women and children, integrated MCH services, and easy access to family planning information and services at no cost.

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CHAPTER 6

Globalisation - Impact On India

Oct/Nov 2016

1. Which of the following topics is NOT listed as a core objective of the chapter on "Globalisation – Impact on India"?
   (A) Globalisation and its Advocacy
   (B) The history of international trade agreements
   (C) Fair Globalisation & the Need for Policy Framework
   (D) Protectionism and its re-emergence

   Ans :

   (B) The history of international trade agreements
   The chapter's stated objectives include understanding globalisation and its advocacy, its impact on India, fair globalisation, the policy framework need, globalisation in reverse gear, and the re-emergence of protectionism. A detailed history of international trade agreements is not specified as a primary objective, making it the correct exception among the given options.

May/June 2021

2. According to the chapter's structure, which concept is discussed immediately after "Globalisation and its Impact on India"?
   (A) Fair Globalisation & the Need for Policy Framework
   (B) Globalisation – Concept
   (C) Globalisation and its Advocacy
   (D) Globalisation in reverse gear

   Ans :

   (A) Fair Globalisation & the Need for Policy Framework
   The chapter structure outlines a logical progression of topics. The section 6.3 is "Globalisation and its Impact on India," and it is followed directly by section 6.4, which is titled "Fair Globalisation & the Need for Policy Framework." This sequential arrangement helps in building the concepts from impact to the need for equitable policies.

Oct/Nov 2009

3. What is the fundamental definition of globalisation provided at the beginning of the chapter?
   (A) A rise in political integration among nations
   (B) A rise in cultural homogeneity across the world
   (C) A rise in economic integration among nations
   (D) A rise in military alliances between countries

   Ans :

   (C) A rise in economic integration among nations
   The chapter explicitly defines globalisation as a rise in economic integration among nations. This core concept focuses on the financial and trade-related aspects that connect different countries. While political and cultural changes are consequences, the primary definition provided in the text is centered on the economic dimension of this worldwide phenomenon.

May/June 2023

4. Which of the following historical events forced a retreat from the process of globalisation?
   (A) The Industrial Revolution
   (B) The Cold War
   (C) The formation of the European Union
   (D) The Great Depression

   Ans :

   (D) The Great Depression
   The text states that World War I, the Great Depression, and World War II were significant historical events that forced a retreat from globalisation. These events led to the raising of several trade obstacles and a move towards more protectionist and isolationist economic policies among nations, thereby halting the integration process for a period.

Oct/Nov 2018

5. Which organisation is credited with popularising the term 'globalisation' again in the mid-1980s?
   (A) World Trade Organization (WTO)
   (B) International Monetary Fund (IMF)

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(C) Organisation for Economic Co-operation and Development (OECD)
(D) World Bank (WB)

Ans :

(C) Organisation for Economic Co-operation and Development (OECD)
While the concept of globalisation is ancient, the text specifies that its popularity waned after the World Wars. It was the Organisation for Economic Co-operation and Development (OECD) that was instrumental in popularising the term again during the mid-1980s, bringing it back into the mainstream economic and political discourse of that era.

May/June 2007

6. How does the World Trade Organization (WTO) describe globalisation?
(A) A policy framework focused on restricting the international movement of capital and labour to prioritize national sovereignty.
(B) The development towards "unrestricted cross-border flows of goods and services, capital, and labour force"
(C) A multilateral process aimed at standardising global tax policies and financial regulations across all member nations.
(D) An economic strategy that encourages the formation of regional trade blocs as an alternative to full worldwide integration.

Ans :

(B) The development towards "unrestricted cross-border flows of goods and services, capital, and labour force"
The chapter provides a specific description of globalisation from the perspective of the World Trade Organization (WTO). It is defined as the development towards "unrestricted cross-border flows of goods and services, capital, and labour force." This highlights the WTO's focus on removing barriers to foster greater international economic activity and interconnectedness.

Oct/Nov 2025

7. In which period was the concept of globalisation formally introduced in India through the 'new economic policy'?
(A) 1981-82
(B) 2001-02
(C) 1971-72
(D) 1991-92

Ans :

(D) 1991-92
The text explicitly mentions that the concept of globalisation was formally introduced in India with the implementation of the 'new economic policy'. This landmark economic reform period occurred in 1991–92, marking a significant shift in India's economic strategy towards greater integration with the global economy through liberalisation, privatisation, and globalisation measures.

May/June 2012

8. Which of the following is NOT mentioned as a component of the increasing interconnectedness referred to as "globalisation"?
(A) Cross-border unification of political systems
(B) Cross-border trade in goods and services
(C) Cross-border flows of investment and technology
(D) Cross-border movement of people and knowledge

Ans :

(A) Cross-border unification of political systems
The text describes globalisation as the increasing interconnectedness resulting from cross-border trade in goods and services, technology, and flows of investment, people, and knowledge. While globalisation has political implications, the unification of political systems is not cited as a defining component of the process. The focus remains on economic and social exchanges.

Oct/Nov 2014

9. According to the advocacy for globalisation, what is a primary benefit for citizens when countries globalise?
(A) Increased focus on a limited range of domestically produced, high-quality goods.
(B) A general increase in the costs for most essential goods and services due to import duties.
(C) Access to a broader range of goods and services at reduced costs.
(D) A significant reduction in national employment opportunities due to outsourcing to other countries.

Ans :

(C) Access to a broader range of goods and services at reduced costs.

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The chapter highlights that there is strong evidence showing that when countries globalise, their citizens benefit significantly. One of the key advantages mentioned is gaining exposure to a broader range of goods and services, often at reduced costs, which directly improves consumer welfare and overall living standards by increasing choice and affordability.

May/June 2019

10. Identify the statement that is INCORRECT regarding the reasons for globalisation's wider acceptance.

(A) The presence of restrictive macroeconomic policies encourages it.
(B) The presence of a market economy is a contributing factor.
(C) An educated workforce helps in embracing globalisation.
(D) The proliferation of technology is a key driver.

Ans :

(A) The presence of restrictive macroeconomic policies encourages it.
The text lists several reasons for globalisation's acceptance, including the proliferation of technology, robust institutions, an educated workforce, a market economy, and effective macroeconomic policies. Restrictive policies would hinder, not encourage, the flows of trade and investment that define globalisation. Therefore, effective, not restrictive, macroeconomic policies support its wider acceptance.

Oct/Nov 2006

11. Besides economic aspects, globalisation is also described as having which of the following implications?

(A) Astrological, philosophical, and recreational
(B) Fictional, mythical, and historical
(C) Musical, artistic, and athletic
(D) Cultural, political, and environmental

Ans :

(D) Cultural, political, and environmental
The text explicitly states that globalisation extends beyond purely economic interactions. It is mentioned to have larger cultural, political, and environmental implications. This acknowledges that the increased interconnectedness between nations affects societies' values, governance structures, and the natural world, making its impact multifaceted and comprehensive in scope and effect.

May/June 2005

12. According to its proponents, how does globalisation primarily help developing countries?

(A) By promoting economic isolationism to foster strong, self-reliant domestic industrial bases.
(B) By accelerating economic development through increased manufacturing and diversification.
(C) By carefully restricting technology transfers to safeguard national intellectual property and foster local innovation.
(D) By implementing capital controls that limit cross-border investment to prevent market volatility and capital flight.

Ans :

(B) By accelerating economic development through increased manufacturing and diversification.
Proponents of globalisation argue that it provides a pathway for developing countries to accelerate their economic progress. This is achieved by enabling them to catch up to developed nations through mechanisms like increased manufacturing, economic diversification, and overall development, which ultimately lead to higher living standards for their populations.

Oct/Nov 2022

13. Which of the following is NOT cited as a way trade initiatives promote cross-border trade?

(A) By reducing supply-side barriers
(B) By reducing trade-related barriers
(C) By increasing tariffs on imported goods
(D) By facilitating cross-border investment and technology transfer

Ans :

(C) By increasing tariffs on imported goods
Trade initiatives that promote globalisation aim to reduce, not increase, barriers to trade. The text mentions they work by reducing supply-side and trade-related barriers. Increasing tariffs is a protectionist measure that restricts trade, which is the opposite of the goal of such initiatives. Cross-border investment and technology transfer are positive outcomes promoted by these initiatives.

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May/June 2018

14. What social benefit of globalisation is highlighted in the context of activism?

(A) It has significantly reduced the influence and effectiveness of international social activist networks.

(B) It has unintentionally promoted cultural isolation and nationalism on a worldwide basis.

(C) It has restricted the scope of social justice advocacy, limiting it to within national borders.

(D) It has drawn attention to previously unnoticed human rights issues.

Ans :

(D) It has drawn attention to previously unnoticed human rights issues.

The chapter notes that globalisation has enhanced social justice on a worldwide basis. It specifically mentions that activists have reported its role in drawing attention to human rights issues that might have otherwise gone unnoticed on a vast scale. This global connectivity allows for greater awareness and advocacy for social causes across borders.

Oct/Nov 2016

15. The advent of globalisation in India led to significant changes in all the following areas EXCEPT:

(A) The system of political governance

(B) Economic policy

(C) Production and consumer behaviour

(D) Cultural norms

Ans :

(A) The system of political governance

The text states that globalisation caused significant changes in India's economic policy, production, consumer behaviour, and even its culture. However, it does not mention that it led to a fundamental change in the country's system of political governance, such as its democratic framework. The impact was primarily economic, social, and cultural.

May/June 2014

16. What was a major consequence of the 1991 reforms and globalisation on the Indian economy's growth?

(A) The economy's average growth rate significantly decreased as a result of foreign competition.

(B) The average growth rate of the economy was much higher than in prior decades.

(C) The economy experienced a prolonged and deep period of stagnation with zero growth.

(D) The growth rate remained statistically unchanged compared to the pre-reform era.

Ans :

(B) The average growth rate of the economy was much higher than in prior decades.

The chapter clearly states that following the 1991 reforms, which embraced globalisation, the average growth rate of the Indian economy was much higher than in the decades prior. This indicates that the policy shift towards economic liberalisation and integration with the global economy acted as a significant catalyst for India's economic expansion.

Oct/Nov 2007

17. How were exports regarded in the post-globalisation Indian economy?

(A) As a drain on national resources

(B) As a growth engine

(C) As a secondary economic activity

(D) As a factor contributing to trade deficits

Ans :

(B) As a growth engine

Following the economic reforms and the embrace of globalisation, India's perspective on international trade shifted. Exports were no longer just a way to earn foreign exchange but were regarded as a primary growth engine for the economy. This change in outlook was coupled with the implementation of new technologies that boosted long-term productivity.

May/June 2025

18. Which of the following is identified as an effect of globalisation on the Indian economy?

(A) Better employment opportunities

(B) Decreased per capita income

(C) Fewer options for customers

(D) Reduced agricultural exports

Ans :

(A) Better employment opportunities

The text lists several positive effects of globalisation on India. Among these are increased per capita income, far more options for customers, and better employment opportunities.

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The integration with the global economy created new jobs and avenues for professional growth, contributing to the overall economic well-being of the population and improving their standard of living.

Oct/Nov 2019

19. Globalisation prompted India to consider large investments in the agricultural sector for what specific purposes?

(A) To promote subsistence farming and protect traditional agricultural methods from foreign influence

(B) To reduce agricultural exports and focus on ensuring a self-sufficient domestic food supply

(C) To promote large-scale farm mechanisation and commercial farming practices necessary to compete in global agricultural markets.

(D) To increase subsidies for small-scale and marginal farmers exclusively, to protect them from market shocks

Ans :

(C) To promote large-scale farm mechanisation and commercial farming practices necessary to compete in global agricultural markets.

Globalisation opened up new opportunities for agricultural exports from India. To capitalize on this, the text suggests that it prompted India to consider mobilizing large investments in the sector. The specific goals were to enhance farm mechanisation and promote commercial farming, thereby improving productivity and competitiveness in the global market for agricultural goods.

May/June 2009

20. What is described as a key proposition of 'fair globalisation'?

(A) A framework ensuring that the benefits of globalisation are concentrated in developed nations to fund further technological advancement.

(B) A policy of minimizing the role of governments to reduce regulatory burdens that are believed to hinder pure free-market efficiency.

(C) A strategy of focusing solely on rapid economic growth, deferring social and environmental protection goals for future generations to address.

(D) Promoting social cohesion through mutual understanding and dialogue among governments and organisations

Ans :

(D) Promoting social cohesion through mutual understanding and dialogue among governments and organisations

The concept of 'fair globalisation' emphasizes equity and social well-being. A key proposition is the importance of mutual understanding and dialogue among governments and various organisations, both within and across borders. This collaborative approach is essential to promote social cohesion and ensure that the process of globalisation is balanced and beneficial for all stakeholders.

Oct/Nov 2011

21. Consider the following statements about 'fair globalisation':

I. It aims to create opportunities for all while ensuring the advantages are shared equally.

II. It requires government measures to safeguard the interests and entitlements of all citizens, including workers.

Which of the statements is/are correct?

(A) Only I

(B) Only II

(C) Both I and II

(D) Neither I nor II

Ans :

(C) Both I and II

The text describes 'fair globalisation' as a model that creates opportunities for everyone and, crucially, ensures that its advantages are shared equally. It also explicitly states that government measures must be in place to safeguard the interests of all citizens, including workers, by protecting their rights and ensuring they receive their entitlements.

May/June 2010

22. What are the three interdependent and mutually reinforcing pillars that must support fair globalisation at all levels?

(A) Political stability, military strength, and technological superiority

(B) Economic development, social development, and environmental protection

(C) Corporate profit, consumerism, and market expansion

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(D) National interest, regional dominance, and global influence

Ans :

(B) Economic development, social development, and environmental protection
The chapter specifies that for globalisation to be fair, it must be supported by three interconnected pillars at the local, national, regional, and global levels. These pillars are economic development, social development, and environmental protection. This framework ensures a holistic and sustainable approach, balancing economic growth with social equity and ecological responsibility.

Oct/Nov 2024

23. Which of the following is NOT a characteristic of a 'fair globalisation' framework?
(A) It must be inclusive and democratically governed.
(B) It must provide equal opportunity and access to all nations.
(C) It must acknowledge the diversity of national strengths and developmental requirements.
(D) It must be centrally controlled by a single global authority.

Ans :

(D) It must be centrally controlled by a single global authority.
The principles of fair globalisation include being fair, inclusive, and democratically governed. It emphasizes providing equal opportunity and access while acknowledging national diversity. The idea of central control by a single global authority contradicts the principle of democratic governance and respect for diverse national requirements, which are core tenets of this equitable approach.

May/June 2017

24. Assertion (A): During economic and geopolitical crises, globalisation has often taken a hit.
Reason (R): WTO regulations strictly prohibit governments from practicing any form of trade protection measures, even to preserve national interests.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.
Assertion (A) is true, as the text states that globalisation has always taken a hit during crises. However, Reason (R) is false. The text explicitly mentions that WTO regulations actually allow governments to practice trade protection measures within specific limits to preserve national interests, which is contrary to the claim made in the reason.

Oct/Nov 2005

25. What is the term for the process of reducing dependency and integration among particular units throughout the world, often used to describe historical eras of collapsing trade?
(A) Regionalisation
(B) Localisation
(C) Deglobalisation
(D) Nationalisation

Ans :

(C) Deglobalisation
The chapter defines 'deglobalisation' as the process of reducing dependency and integration amongst particular units throughout the world. This term is commonly used to characterize historical periods where economic trade and investment between countries collapse, representing a retreat or reversal from the interconnectedness that defines the process of globalisation in the modern era.

May/June 2020

26. What is the term for a government's practice of enacting laws to restrict international trade, with the goal of shielding domestic producers and workers from foreign competition?
(A) Protectionism
(B) Free trade
(C) Mercantilism
(D) Laissez-faire

Ans :

(A) Protectionism
The text defines 'protectionism' as the practice where a government enacts laws specifically to restrict or prohibit international trade. The primary objective of these protectionist measures is to shield home producers and workers from the pressures of foreign competition, thereby

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preserving domestic industries and jobs, at least in the short term.

Oct/Nov 2015

27. Which of the following is NOT one of the three main forms of protectionism mentioned in the chapter?
(A) Tariffs
(B) Import quotas
(C) Non-tariff barriers
(D) Export subsidies

Ans :

(D) Export subsidies
The chapter explicitly identifies three main forms that protectionism takes: tariffs, import quotas, and non-tariff barriers. While export subsidies are a tool of trade policy, they are generally used to promote exports rather than restrict imports. The text specifically lists the other three as the primary measures of protectionism aimed at shielding domestic industries.

May/June 2013

28. Which of the following statements about the results of protectionism is incorrect?
(A) It leads to a measurable and significant decline in international trade volumes.
(B) It guarantees a net creation of jobs for the overall economy.
(C) It can cause a sharp and sustained rise in the prices of protected domestic goods.
(D) It often necessitates the provision of government subsidies for protected domestic industries.

Ans :

(B) It guarantees a net creation of jobs for the overall economy.
The text states that protectionism results in a decline in trade, price rises, and the need for subsidies. It also cautions that while some jobs in protected industries may be saved, jobs in other industries are likely to be lost. Therefore, it does not guarantee a net creation of jobs for the overall economy.

Oct/Nov 2021

29. Which of the following recent events are cited as contributing to a shift away from globalisation?
I. Brexit
II. The US-China Trade Disputes
III. The COVID-19 Pandemic
IV. The formation of the World Trade Organization
(A) I and II only
(B) I, II, and III only
(C) II, III, and IV only
(D) I, II, III, and IV

Ans :

(B) I, II, and III only
The text lists several unprecedented recent events that have supported a gradual shift away from globalisation. These include Brexit, the withdrawal of the US from the Trans-Pacific Partnership, the US-China Trade Disputes, the COVID-19 Pandemic, and the Russia-Ukraine conflict. The formation of the WTO was a force for globalisation, not against it.

May/June 2024

30. What specific mechanism of the World Trade Organization is mentioned as having a "limited role," contributing to the rise of inward-looking policies?
(A) The Trade Policy Review Mechanism
(B) The General Council
(C) The Committee on Trade and Development
(D) The Dispute Settlement Mechanism

Ans :

(D) The Dispute Settlement Mechanism
The chapter points to the "limited role of the World Trade Organization 'Dispute Settlement Mechanism'" as a critical factor playing a role in the strategic retreat from globalisation. An ineffective or limited dispute resolution body can lead countries to pursue unilateral, inward-looking policies instead of relying on the multilateral trading system for recourse.

Oct/Nov 2008

31. The rise of which principle is associated with the preference for pursuing inward- rather than outward-looking economic and foreign policies?
(A) Populism
(B) Globalism
(C) Internationalism
(D) Multilateralism

Ans :

(A) Populism
The text connects the trend towards deglobalisation with a "rise in populism principle." This principle suggests that a country

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would be better off by pursuing inward-looking policies that prioritize domestic interests over outward-looking policies that emphasize international cooperation and integration. This sentiment fuels protectionist tendencies and a retreat from global interconnectedness.

May/June 2006

32. According to Michael O'Sullivan's book, "The Levelling: What's Next After Globalisation", what is the current state of globalisation?

(A) It is accelerating at an unprecedented rate due to new technologies.
(B) It is a historical phase that is now effectively over and already behind us.
(C) It is entering a new, more integrated and complex phase of development.
(D) It is finally becoming more equitable and fair for all participating nations.

Ans :

(B) It is a historical phase that is now effectively over and already behind us.

The chapter quotes Michael O'Sullivan's recent book, "The Levelling: What's Next After Globalisation," to support the idea of a shift away from globalisation. His stated view is that "globalisation is already behind us," suggesting that the era of increasing global integration has ended and the world is moving into a new, different phase.

Oct/Nov 2017

33. Inward-looking sovereign policies that demonstrate a strategic retreat from globalisation include all of the following EXCEPT:

(A) Prioritising domestic production.
(B) Reducing tariffs to encourage competition from cheaper suppliers.
(C) Offering packages to increase the scale of domestic companies.
(D) Promoting a protectionist policy to counter unfair trade.

Ans :

(B) Reducing tariffs to encourage competition from cheaper suppliers.

The chapter describes inward-looking policies as prioritising domestic production, helping domestic firms scale up, and promoting protectionism. Reducing tariffs to encourage competition from cheaper foreign suppliers is an outward-looking, pro-globalisation policy. It directly contradicts the goal of protecting domestic industries, which is a hallmark of strategic retreat from globalisation.

May/June 2008

34. Read the following excerpt: "Proponents of globalisation believe that it helps developing countries to catch up to developed ones, through increased manufacturing, diversification, economic development, and higher living standards. Cross-border investment and technology transfer bring jobs."

Based on this excerpt, what is the primary mechanism through which globalisation is believed to foster development?

(A) By facilitating economic transformation and job creation.
(B) By promoting cultural exchange and social harmony.
(C) By strengthening political alliances between nations.
(D) By enforcing uniform environmental standards globally.

Ans :

(A) By facilitating economic transformation and job creation.

The excerpt explicitly links globalisation to tangible economic outcomes for developing countries. It highlights increased manufacturing, diversification, and economic development as the path to higher living standards. Furthermore, it directly states that cross-border investment and technology transfer are vehicles for bringing jobs, clearly pointing to economic transformation and job creation as the core mechanism.

Oct/Nov 2013

35. A developing country, 'Economia', actively seeks foreign investment to build new factories and infrastructure. As a result, its citizens gain access to better-paying jobs and a wider variety of affordable consumer goods, leading to a higher overall standard of living. This scenario is an example of:

(A) The negative consequences of protectionism.
(B) The process of deglobalisation.
(C) The benefits of globalisation as described by its proponents.
(D) The failure of a market economy.

Ans :

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(C) The benefits of globalisation as described by its proponents.
This case directly illustrates the positive outcomes of globalisation as advocated by its proponents in the chapter. The scenario shows how foreign investment (a key component of globalisation) leads to better employment, a broader range of goods, and improved living standards, which are the exact benefits that the text associates with countries that globalise.

May/June 2015

36. Match the concepts in List-I with their descriptions in List-II.
List-I
P. Globalisation
Q. Deglobalisation
R. Protectionism
S. Fair Globalisation
List-II
1. Laws restricting international trade to protect home producers.
2. Reducing dependency and integration among countries.
3. A rise in economic integration among nations.
4. Ensuring the advantages of integration are shared equally.

Code:
(A) P-3, Q-2, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-3, R-4, S-1

Ans :

(A) P-3, Q-2, R-1, S-4
The correct matching is based on the definitions provided in the chapter. Globalisation (P) is a rise in economic integration (3). Deglobalisation (Q) is the process of reducing dependency and integration (2). Protectionism (R) involves laws restricting trade to protect home producers (1). Fair Globalisation (S) is about ensuring benefits are shared equally (4).

Oct/Nov 2012

37. Which keyword is defined as "the increasing interconnectedness of the world's economies, cultures, and inhabitants"?
(A) Protectionism
(B) Tariff
(C) Globalisation
(D) Social cohesion

Ans :

(C) Globalisation
The chapter provides this comprehensive definition for "globalisation" in section 6.2 and reiterates it in the "Let Us Sum Up" section. It goes beyond the purely economic definition to include the interconnectedness of cultures and inhabitants, highlighting the broader social and cultural dimensions of the phenomenon, which is a key aspect discussed in the text.

NODIA

May/June 2011

38. According to the summary point 4 in 'Let Us Sum Up', which of the following is an effect of globalisation in India?
(A) Reduced per capita income
(B) Increased per capita income
(C) Limited options for customers
(D) Worse employment opportunities

Ans :

(B) Increased per capita income
The fourth summary point in the 'Let Us Sum Up' section explicitly states that the effects of globalisation in India include increased per capita income, better employment opportunities, and far more options for customers. This directly confirms that an increase in per capita income is one of the key positive outcomes experienced by the Indian economy.

Oct/Nov 2020

39. As per the 'Let Us Sum Up' section, which process is known as 'deglobalisation'?
(A) The process of systematically increasing economic dependency and social integration between nations.
(B) The process of actively promoting cross-border trade in both finished goods and raw materials.
(C) The process of forming new, binding international trade alliances to reduce tariffs and quotas.
(D) The process of reducing dependency and integration amongst particular units throughout the world.

Ans :

(D) The process of reducing dependency and integration amongst particular units throughout the world.

Summary point 7 in the 'Let Us Sum Up' section provides a concise definition of deglobalisation. It is described as "The process of reducing dependency and integration amongst particular units throughout the world." This definition captures the essence of a retreat from the interconnectedness that characterizes globalisation, aligning perfectly with the chapter's discussion on the topic.

May/June 2022

40. Which of the following pairs of 'term' and 'description' is correctly matched based on the chapter?
(A) Protectionism: Results in a decline in trade and a price rise.
(B) Tariff: A non-financial barrier to trade.
(C) Social Cohesion: A key proposition of protectionism.
(D) OECD: The organisation that formally introduced globalisation in India.

Ans :

(A) Protectionism: Results in a decline in trade and a price rise.
The text explicitly states that protectionism results in a decline in trade, a price rise, and the need for subsidies for protected industries. The other options are incorrect. A tariff is a financial barrier, social cohesion is linked to fair globalisation, and globalisation was introduced in India through its new economic policy, not directly by the OECD.

Oct/Nov 2023

41. All of the following are listed as 'Keywords' at the end of the chapter EXCEPT:
(A) Trade disputes
(B) Tariff
(C) Economic growth
(D) Social cohesion

Ans :

(C) Economic growth
The 'Keywords' list includes terms like Globalisation, trade disputes, protectionism, restriction, tariff, subsidy, interconnectedness, cross-border, technology, investment, economic policy, production, social cohesion, and national interests. The term 'Economic growth' is discussed as an outcome of globalisation but is not explicitly listed as a standalone keyword at the end of the chapter.

May/June 2016

42. Consider the following statements regarding the impact of globalisation on India:
I. It propelled the Indian economy's development through foreign investment.
II. It led to the implementation of new technologies that boosted productivity.
III. It prompted India to focus solely on subsistence agriculture.
Which of the above statements is/are correct?
(A) I only
(B) I and II only
(C) II and III only
(D) I, II, and III

Ans :

(B) I and II only
The chapter confirms that the entry and expansion of foreign investment propelled India's development (I) and that new technologies were implemented, boosting long-term productivity (II). Statement (III) is incorrect; globalisation prompted India to consider investments in commercial farming and mechanisation for exports, not to focus solely on subsistence agriculture.

Oct/Nov 2009

43. Read the following excerpt: "At the local, national, regional, and global levels, fair globalisation must be supported by the interdependent and mutually reinforcing pillars of economic development, social development, and environmental protection."
What does this statement imply about the nature of fair globalisation?
(A) It is a purely economic concept with no social or environmental dimensions.
(B) It is only relevant at the global level, not local or national.
(C) Environmental protection is the single most important pillar.
(D) It requires a balanced and holistic approach across multiple domains.

Ans :

(D) It requires a balanced and holistic approach across multiple domains.
The excerpt emphasizes that fair globalisation must be supported by three 'interdependent and mutually reinforcing pillars': economic, social, and environmental. This structure implies that

these three aspects are interconnected and must be addressed together for globalisation to be considered 'fair'. It clearly points to the need for a balanced and holistic approach, not a narrow focus.

May/June 2023

44. A country's government, concerned about its nascent software industry being outcompeted by large foreign firms, passes a law requiring all government agencies to purchase software only from domestic companies. This action is a form of:

(A) Import quota
(B) Non-tariff barrier
(C) Tariff
(D) Free trade agreement

Ans :

(B) Non-tariff barrier
This scenario describes a protectionist measure that is not a direct tax (tariff) or a quantity limit (quota). A law mandating domestic procurement is a classic example of a non-tariff barrier. It restricts foreign competition without imposing a direct financial penalty, fitting the description of one of the three main forms of protectionism mentioned in the text.

Oct/Nov 2018

45. Arrange the following events related to globalisation in the chronological order of their mention in the text:

I. Popularisation of the term 'globalisation' by the OECD.
II. Formal introduction of globalisation in India.
III. Retreat from globalisation due to World War I.
IV. Ancient roots of the concept dating back to the 18th century.

(A) IV, III, I, II
(B) I, III, IV, II
(C) IV, I, III, II
(D) III, IV, II, I

Ans :

(A) IV, III, I, II
The text first mentions the ancient roots of globalisation in the 18th century (IV). It then discusses the retreat forced by events like World War I (III). Following this, it notes the re-popularisation of the term by the OECD in the mid-1980s (I). Finally, it specifies the formal introduction in India in 1991-92 (II).

May/June 2007

46. What is the cornerstone of a more equitable globalisation, according to the principles of fair globalisation?

(A) Maximising profits for multinational corporations.
(B) Enforcing a single global culture.
(C) Prioritising the interests of developed nations.
(D) Addressing the wants and needs of all people.

Ans :

(D) Addressing the wants and needs of all people.
The section on fair globalisation concludes by stating that "Addressing the wants and needs of all people is the cornerstone of a more equitable globalisation." This principle emphasizes a people-centric approach, focusing on universal well-being and inclusivity rather than narrow economic or nationalistic interests, which is central to the concept of fairness.

Oct/Nov 2025

47. What is the most accurate description of the impact of protectionism on employment, as presented in the chapter?

(A) It saves some jobs in protected industries while causing job losses in others.
(B) It consistently leads to a net increase of jobs across all sectors of the national economy.
(C) It has a neutral or negligible impact on overall employment levels within any given industry.
(D) It primarily and exclusively creates new employment opportunities within export-oriented industries.

Ans :

(A) It saves some jobs in protected industries while causing job losses in others.
The text offers a nuanced view on this topic. It states, "Some jobs in these industries may be saved, but jobs in other industries are likely to be lost." This indicates that while protectionism can shield specific domestic industries, it often has negative ripple effects on other parts of the economy, making this option the most accurate summary.

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May/June 2012

48. Which of the following pairs is INCORRECTLY matched?
(A) Brexit: An event supporting a shift away from globalisation.
(B) Populism: Promotes outward-looking economic policies.
(C) WTO: Allows trade protection measures to preserve national interests within limits.
(D) Tariffs: A form of protectionism.

Ans :

(B) Populism: Promotes outward-looking economic policies.
The chapter explicitly links the rise of the "populism principle" with the pursuit of "inward- rather than outward-looking policies." Therefore, the pairing of populism with outward-looking policies is incorrect. The other pairs are correctly stated in the text: Brexit is an anti-globalisation event, the WTO allows limited protectionism, and tariffs are a form of it.

Oct/Nov 2014

49. Consider the following statements:
I. Globalisation is a modern concept that originated in the mid-1980s.
II. Globalisation has cultural, political, and environmental implications beyond its economic scope.
Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Ans :

(B) Only II
Statement I is incorrect because the text states that the concept of globalisation is an ancient one, dating back to the 18th century, even though the term was popularised in the 1980s. Statement II is correct, as the text explicitly mentions that globalisation has larger cultural, political, and environmental implications, extending beyond just economics.

May/June 2019

50. What is the fundamental goal of protectionist measures?
(A) To protect domestic producers and workers from foreign competition.
(B) To actively promote seamless global economic integration and cooperation.
(C) To increase the variety of imported goods available to domestic consumers.
(D) To lower prices for consumers by fostering intense international competition.

Ans :

(A) To protect domestic producers and workers from foreign competition.
The chapter defines protectionism as actions taken by a government to restrict international trade. It clearly states that "protectionist measures frequently attempt to protect home producers and workers from foreign competition." This is the primary and fundamental objective of such policies, even if they have other, often negative, side effects on the economy.

Oct/Nov 2006

51. The advent of globalisation influenced all the following in India, as per the text, EXCEPT:
(A) Consumer behaviour
(B) The production process
(C) The electoral process
(D) Economic policy

Ans :

(C) The electoral process
Section 6.3 states that globalisation caused significant changes in India's economic policy, production, and consumer behaviour, as well as its culture. However, the text makes no mention of globalisation having a direct influence on the mechanics or procedures of the Indian electoral process. The impact discussed is primarily economic and socio-cultural.

May/June 2021

52. Assertion (A): Proponents of globalisation believe it helps developing countries advance economically.
Reason (R): Globalisation facilitates cross-border investment and technology transfer, which bring jobs and promote diversification.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true; the text says proponents believe globalisation helps developing countries catch up. Reason (R) is also true; it states that cross-border investment and technology transfer bring jobs. Reason (R) correctly explains the mechanism by which the goal in Assertion (A) is achieved, as described in the chapter.

Oct/Nov 2010

53. Read the following statement: "The importance of mutual understanding and dialogue among governments, organisations within and across borders to promote social cohesion is a key proposition of fair Globalisation."
Based on this, what is essential for achieving the social goals of fair globalisation?
(A) Unilateral government action
(B) Competitive behaviour between organisations
(C) Collaborative communication and discussion
(D) Isolationist policies

Ans :

(C) Collaborative communication and discussion
The excerpt directly highlights "mutual understanding and dialogue" as a "key proposition" for promoting "social cohesion." This points unequivocally to collaborative communication and discussion among various stakeholders (governments, organisations) as the essential method for achieving the social objectives of a fair and equitable globalisation, rather than unilateral or competitive approaches.

May/June 2005

54. The government of Country 'Z' observes a massive influx of cheap steel imports, causing several domestic steel mills to shut down. In response, the government sets a maximum limit of 1 million tonnes on the amount of steel that can be imported annually. This measure is an example of a(n):
(A) Tariff
(B) Import quota
(C) Non-tariff barrier
(D) Subsidy

Ans :

(B) Import quota
The scenario describes the government imposing a quantitative restriction on the amount of a specific good that can be imported. This action perfectly fits the definition of an 'import quota,' which is one of the three main forms of protectionism mentioned in the text. It is not a tax (tariff) or a qualitative rule (non-tariff barrier).

Oct/Nov 2022

55. Which of the following are mentioned as consequences of protectionism?
I. Decline in trade
II. Rise in prices
III. Reduction in subsidies for industries
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Ans :

(A) I and II only
The text clearly states that protectionism results in a "decline in trade, price rise, and the necessity for provision of subsidy for protected industries." Therefore, statements I (decline in trade) and II (rise in prices) are correct consequences. Statement III is incorrect; protectionism leads to a need for subsidies, not a reduction in them.

May/June 2018

56. The phrase "movement of people (labour) and information (technology) across international borders" is used in the chapter to describe an aspect of:
(A) Globalisation
(B) Protectionism
(C) Deglobalisation
(D) Nationalisation

Ans :

(A) Globalisation
In section 6.2, while discussing the advocacy for globalisation, the text mentions that the phrase "is also used to describe the movement of people (labour) and information (technology) across international borders." This broadens the definition of globalisation beyond just goods and capital to include the flow of human resources and knowledge as well.

Oct/Nov 2016

57. What must governments do to ensure fair globalisation, according to the text?
(A) To maximize corporate profits above all other social considerations.

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(B) To allow market forces to operate without any government intervention.
(C) To safeguard the interests and entitlements of all citizens.
(D) To discourage the formation of robust and sound legal institutions.

Ans :

(C) To safeguard the interests and entitlements of all citizens.
The section on fair globalisation explicitly states, "Government measures must safeguard the interests of all citizens, including workers. Their rights must be effectively protected, and they must be given their entitlements." This highlights the proactive role of the government in ensuring that the benefits of globalisation are distributed equitably and that vulnerable groups are protected.

May/June 2014

58. Consider this excerpt: "Despite its importance in building a better world for millions of underprivileged, currently a gradual shift in viewpoint towards embracing of globalisation is taking place, primarily supported by a number of unprecedented events..."
What does this excerpt suggest about the current perception of globalisation?
(A) Its positive impact is being questioned due to recent global events.
(B) Its acceptance is growing stronger without any challenges.
(C) It has failed to provide any benefits to the underprivileged.
(D) The shift in viewpoint is minor and not supported by events.

Ans :

(A) Its positive impact is being questioned due to recent global events.
The excerpt acknowledges the past importance of globalisation for the underprivileged but points to a "gradual shift in viewpoint" that is challenging this. It attributes this shift to "unprecedented events," implying that recent developments are causing a re-evaluation and questioning of the continued embrace of globalisation, despite its historical benefits.

Oct/Nov 2007

59. An Indian farmer, post-1991, finds that he can now export his high-quality mangoes to European markets for a better price. To meet the demand, his cooperative invests in new sorting machinery and cold storage facilities. This situation reflects which impact of globalisation on Indian agriculture?
(A) A general decline in overall agricultural productivity caused by widespread soil degradation.
(B) A government-mandated policy shift back towards traditional subsistence farming methods.
(C) The negative price effects on domestic fruit farmers due to cheap foreign competition.
(D) The creation of new export options and the subsequent need for investment.

Ans :

(D) The creation of new export options and the subsequent need for investment.
This case directly mirrors the chapter's discussion on the impact on Indian agriculture. Globalisation "opened up new options for agriculture exports." The cooperative's investment in machinery and facilities reflects the point that it "prompted India to consider mobilising large investments in the sector for farm mechanisation and commercial farming."

May/June 2025

60. The chapter suggests that a retreat from globalisation is demonstrated by policies that prioritise:
(A) International cooperation and free trade.
(B) Domestic production and investment.
(C) Increased immigration and labour mobility.
(D) Adherence to WTO dispute settlement rulings.

Ans :

(B) Domestic production and investment.
The text describes the retreat from globalisation through "inward-looking sovereign policies." These policies are characterized by "prioritising domestic production, offering packages to enable domestic companies to increase their scale of operations, and increase investments domestically." This clearly indicates a focus on the domestic economy over international integration.

Oct/Nov 2019

61. Which of the following is NOT a reason cited for the wider acceptance of globalisation?

(A) Proliferation of technology
(B) Educated workforce
(C) Rise of protectionist sentiment
(D) Effective macroeconomic policies

Ans :

(C) Rise of protectionist sentiment
The text lists investment, technology proliferation, robust institutions, effective macroeconomic policies, an educated workforce, and a market economy as reasons for globalisation's acceptance. A rise in protectionist sentiment is the opposite of this; it is a reason for the retreat from or opposition to globalisation, as discussed later in the chapter.

May/June 2009

62. Which of the following statements is correct according to the chapter's content?
(A) Globalisation was formally introduced in India during the 1980s.
(B) Fair globalisation must be supported by the single pillar of economic development.
(C) Protectionism leads to an increase in international trade.
(D) The Russia-Ukraine conflict is cited as an event contributing to deglobalisation.

Ans :

(D) The Russia-Ukraine conflict is cited as an event contributing to deglobalisation.
The text explicitly lists the "Russia-Ukraine conflict" along with Brexit, the US-China trade disputes, and the COVID-19 pandemic as recent unprecedented events that have supported a shift away from globalisation. The other statements are incorrect based on the text; globalisation was introduced in India in 1991-92, fair globalisation has three pillars, and protectionism leads to a decline in trade.

Oct/Nov 2011

63. What is the role of 'sound institutions' in the context of fair globalisation?
(A) To promote opportunity and enterprise within a functioning market economy.
(B) To actively restrict enterprise and strictly enforce a centrally-planned command economy.
(C) To function entirely independently of the economic, social, and environmental pillars of society.
(D) To deliberately limit economic access and opportunity to a few select, powerful nations.

Ans :

(A) To promote opportunity and enterprise within a functioning market economy.
The chapter states that within the framework of fair globalisation, "Sound institutions are required to promote opportunity and enterprise, in a market economy." This indicates that strong, well-functioning institutions are essential for creating a level playing field where businesses can thrive and opportunities are generated for the benefit of the wider population.

May/June 2010

64. Read the following from the 'Let Us Sum Up' section: "Protectionism results a decline in trade, price rise, and a form of subsidy for protected industries."
Based on this summary point, what is an unavoidable financial consequence for a government that implements protectionism?
(A) A significant increase in government revenue from newly imposed export taxes.
(B) The necessity of providing financial support to protected industries.
(C) A measurable decrease in the national consumer price index due to import substitution.
(D) A guaranteed surplus in the national budget resulting from improved trade efficiency.

Ans :

(B) The necessity of providing financial support to protected industries.
The excerpt explicitly mentions that protectionism results in "a form of subsidy for protected industries." This implies that the government will likely need to provide financial assistance (subsidies) to keep these less-competitive, protected industries afloat. This represents a direct financial consequence or commitment for the government implementing such policies.

Oct/Nov 2024

65. A political leader in Country 'A' campaigns on a platform of "Country A First," arguing for high tariffs on imports and cancelling international trade deals to protect local jobs. This leader's policy stance is an example of the rise of what principle mentioned in the chapter?
(A) The principle of fair globalisation
(B) The populism principle

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(C) The principle of multilateralism
(D) The principle of social cohesion

Ans :

(B) The populism principle
The scenario describes a leader advocating for inward-looking policies that prioritize national interests over international cooperation. The chapter directly links this approach to "a rise in populism principle that, it would be better off pursuing inward- rather than outward-looking policies, in both economic and foreign policies," making it a perfect example of this concept.

May/June 2017

66. Match the event in List-I with its implication for globalisation in List-II.
List-I
P. 1991 Indian economic policy
Q. Mid-1980s
R. World War I
S. US-China Trade Disputes
List-II
1. Re-popularisation of the term 'globalisation' by OECD.
2. An event contributing to the re-emergence of protectionism.
3. Forced a retreat from globalisation.
4. Formal introduction of globalisation in a major developing economy.
Code:
(A) P-4, Q-1, R-3, S-2
(B) P-1, Q-2, R-4, S-3
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-4, R-3, S-1

Ans :

(A) P-4, Q-1, R-3, S-2
Based on the chapter: India's 1991 policy (P) was its formal introduction to globalisation (4). In the mid-1980s (Q), the OECD re-popularised the term (1). World War I (R) forced a retreat from globalisation (3). The US-China Trade Disputes (S) are an event contributing to modern protectionism (2).

Oct/Nov 2005

67. The chapter defines 'globalisation' in multiple ways. Which of the following is NOT a part of any definition or description of globalisation provided?
(A) A measurable rise in the economic integration and interdependence among nations.
(B) The unrestricted cross-border flow of goods, services, capital, and the labour force.
(C) A system of global governance with a single legislative body.
(D) The increasing interconnectedness of the world's diverse economies, cultures, and inhabitants.

Ans :

(C) A system of global governance with a single legislative body.
The chapter defines globalisation as economic integration, describes the WTO view of unrestricted flows, and also refers to it as the interconnectedness of economies, cultures, and inhabitants. However, it never defines or describes globalisation as a system of global governance with a single, unified legislative body, which would imply a world government.

May/June 2020

68. Which of the following are identified as benefits or positive effects of globalisation?
I. Reduced costs for consumers.
II. More and better-paying employment.
III. Higher overall living standards.
IV. Increased per capita income.
V. Enhanced social justice by highlighting human rights issues.
(A) I, II and IV only
(B) II, III, IV and V only
(C) I, III and V only
(D) I, II, III, IV and V

Ans :

(D) I, II, III, IV and V
The chapter explicitly mentions all five of these as benefits or positive effects. Reduced costs, better employment, and higher living standards are cited as benefits for citizens. Increased per capita income is listed as an effect in India. Enhanced social justice through highlighting human rights issues is mentioned as another worldwide benefit.

Oct/Nov 2015

69. A key aspect of fair globalisation is that it must be "democratically governed." What does this imply?
(A) That only nations with formal, Western-style democratic governments can join the global economy.
(B) That a single worldwide election should be

NODIA

held to determine all international trade policies and regulations.

(C) That decisions on global integration require broad participation and accountability.

(D) That major multinational corporations should have the final, binding say in setting global economic policies.

Ans :

(C) That decisions on global integration require broad participation and accountability.

The principle of being "democratically governed" in the context of fair globalisation suggests that the process should not be dictated by a few powerful entities. Instead, it implies a system where decisions are made through processes that allow for broad participation from different countries and stakeholders, with transparency and accountability, reflecting democratic ideals.

May/June 2013

70. The chapter implies that the relationship between globalisation and national interest is complex because:

(A) Globalisation is a process that inherently and always undermines a country's national interest.

(B) WTO regulations allow for protectionist measures to preserve national interests within limits.

(C) National interest can only be truly served by pursuing a policy of complete economic isolation.

(D) The goals of globalisation and the pursuit of national interest are always perfectly aligned.

Ans :

(B) WTO regulations allow for protectionist measures to preserve national interests within limits.

The text highlights this complexity by noting that even within the pro-globalisation framework of the WTO, there is an acknowledgement of national interest. The fact that WTO regulations permit governments to "practise trade protection measures to preserve national interests within specific limits" shows that there is a built-in tension and balancing act between global integration and national priorities.

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CHAPTER 7
Economic Reforms

Oct/Nov 2016

1. According to the general definition, what is the primary characteristic of an 'economic reform' process?

(A) It involves a government specifying an expanding role for the state and a declining one for the private sector.

(B) It involves a government specifying a declining role for the state and an expanding one for the private sector.

(C) It exclusively focuses on implementing new regulations to correct market failures caused by the private sector.

(D) It aims to increase the size of government to augment and control market-oriented policies.

Ans :

(B) It involves a government specifying a declining role for the state and an expanding one for the private sector.

Economic reform refers to the process where a government deliberately reduces its direct involvement and control over the economy. This creates space for the private sector to grow and operate more freely. The process typically involves deregulation and the promotion of market-oriented policies to foster private sector development, rather than expanding government presence or regulations.

May/June 2021

2. What does the term 'economic reform' typically refer to in the context of government actions?

(A) Deregulation to remove distortions caused by existing rules.

(B) New or enhanced regulations to alleviate market failure.

(C) Government programmes designed to increase state presence in the economy.

(D) Nationalisation of key industries to ensure public control.

Ans :

(A) Deregulation to remove distortions caused by existing rules.

Historically, economic reform is associated with deregulation or shrinking the size of government's role. The primary objective is to remove economic distortions that have been caused by excessive regulations or direct government presence. This is distinct from creating new regulations, even if those are intended to address other market failures, which is a different type of intervention.

Oct/Nov 2007

3. The economic reforms in India during the 1980s were influenced by which renowned doctrine?

(A) The Keynesian Consensus

(B) The Monetarist Doctrine

(C) The Washington Consensus

(D) The Bretton Woods System

Ans :

(C) The Washington Consensus

The economic changes seen in India from the 1980s were influenced by the 'Washington Consensus' doctrine. This doctrine generally advocates for free-market economic policies, such as trade liberalization, privatization, and fiscal discipline. The reforms of this period, although limited, reflected a shift towards these market-oriented principles that were being promoted by international financial institutions based in Washington D.C.

May/June 2014

4. Which statement correctly differentiates the economic reforms of the 1980s from those of the early 1990s in India?

(A) The 1980s reforms were comprehensive and wide-ranging, while the 1990s reforms were more limited and partial.

(B) The 1990s reforms were limited to partial liberalization, while the 1980s reforms were far more comprehensive and wide-ranging.

(C) The 1980s reforms were primarily influenced by socialist principles, while the 1990s reforms adopted the Washington Consensus.

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(D) The 1980s reforms were limited in deregulation, while the 1990s reforms were considerably broader in scope.

Ans :

(D) The 1980s reforms were limited in deregulation, while the 1990s reforms were considerably broader in scope.
The reforms during the 1980s involved very limited deregulation and partial liberalization affecting only a few parts of the existing regulatory system. In contrast, the reforms initiated in the early 1990s were far more comprehensive and wide-ranging, covering crucial domains like industry, commerce, investment, and subsequently agriculture, marking a much deeper structural shift in the economy.

Oct/Nov 2025

5. Which of the following was NOT a major economic factor that led to the implementation of comprehensive economic reforms in India in 1991?
(A) An adverse balance of payments situation.
(B) Poor performance of the public sector undertakings.
(C) A significant surplus in foreign exchange reserves.
(D) High inflationary pressure in the economy.

Ans :

(C) A significant surplus in foreign exchange reserves.
The economic reforms of 1991 were triggered by a severe crisis, one of the key components of which was a sharp drop in foreign exchange reserves, not a surplus. Other contributing factors included an adverse balance of payments, large government debts, inefficient public sector performance, high inflation, and stringent conditions imposed by the World Bank and IMF.

May/June 2005

6. The term 'new economic reforms' of 1991 refers to the neoliberal policies that are collectively known by which acronym?
(A) LGP (Liberalisation, Globalisation, Promotion)
(B) LPG (Liberalisation, Privatisation, Globalisation)
(C) PGL (Privatisation, Growth, Liberalisation)
(D) GLP (Globalisation, Licensing, Privatisation)

Ans :

(B) LPG (Liberalisation, Privatisation, Globalisation)
The transformation of the Indian economy in 1991 was driven by a set of neoliberal policies. These policies are famously summarized by the acronym LPG, which stands for the three main pillars of the reform process: Liberalisation, Privatization, and Globalisation. These pillars guided the policy changes aimed at achieving high economic growth and addressing macroeconomic imbalances.

Oct/Nov 2012

7. What was a key objective of the 1991 economic reform process concerning foreign capital?
(A) Restricting the inflow of foreign direct investment to protect domestic industries.
(B) Nationalising all foreign investments made prior to 1991.
(C) Limiting foreign investment to only the agricultural sector.
(D) Attracting significant foreign direct investment to boost the economy.

Ans :

(D) Attracting significant foreign direct investment to boost the economy.
A central goal of the 1991 economic reforms was to open up the Indian economy and integrate it with the global market. Attracting significant foreign direct investment (FDI) was a crucial part of this strategy. The reforms aimed to create a more favourable environment for foreign investors, thereby bringing in capital, technology, and expertise to stimulate economic growth.

May/June 2019

8. In the context of the 1991 reforms, what did 'Liberalisation' primarily entail?
(A) Relaxing regulations imposed on trade agreements to allow trade to thrive.
(B) Imposing stricter regulations on trade agreements to protect domestic producers.
(C) Increasing government industrial licencing to control production capacity.
(D) Prohibiting the import of goods to encourage domestic manufacturing.

Ans :

(A) Relaxing regulations imposed on trade agreements to allow trade to thrive.

NODIA

Liberalisation, as a pillar of the 1991 reforms, was conceived with the idea of reducing state control and relaxing regulations. This specifically included easing restrictions on trade agreements, abolishing the industrial licencing regime, enhancing production capacity, and providing greater liberty to import goods. The core aim was to open up economic frontiers for both domestic and international participants.

Oct/Nov 2021

9. What is the primary meaning of 'Privatisation' as implemented during the economic reforms in India?

(A) Increasing the role of the public sector to ensure state control over all essential services.
(B) Transferring the ownership of private companies to government control through nationalization.
(C) Expanding private sector opportunities while limiting the public sector's role.
(D) Banning all foreign participation and FDI flow to promote self-reliance within the Indian economy.

Ans :

(C) Expanding private sector opportunities while limiting the public sector's role.
Privatisation, as part of the LPG reforms, involved a strategic shift to provide the private sector with greater opportunities to operate and manage various services. This was coupled with a corresponding limitation of the public sector's dominant role. The policy invited increased private and foreign participation, fostering competition and aiming for greater efficiency in the economy.

May/June 2011

10. How is 'Globalisation' defined in the context of India's economic reforms?

(A) The integration of the Indian economy with the global economy.
(B) The isolation of the Indian economy from global economic trends.
(C) A policy to restrict international trade and foreign direct investment.
(D) The complete dependence of the Indian economy on a single foreign economy.

Ans :

(A) The integration of the Indian economy with the global economy.
Globalisation, a key component of the 1991 reforms, refers to the process of integrating the Indian economy with the world economy. This signifies that India's economy would become more interdependent with the global economy, encouraging foreign direct investment (FDI), international trade, and the flow of capital, technology, and knowledge across borders to boost domestic capacity.

Oct/Nov 2008

11. Which of the following was a characteristic of the Indian financial sector before the 1990s reforms?

(A) Market-determined interest rates and minimal government pre-emption of bank resources.
(B) High operational flexibility and complete functional autonomy for all financial intermediaries.
(C) Limited micro-regulations which allowed for an entirely free flow of funds across sectors.
(D) Controlled interest rates and high government pre-emption of resources.

Ans :

(D) Controlled interest rates and high government pre-emption of resources.
Prior to the 1990s, the Indian financial sector operated under a highly regulated regime. This was characterized by administered or controlled interest rates, significant pre-emption of bank resources by the government (through high SLR and CRR), and extensive micro-regulations that dictated the flow of funds to and from financial intermediaries, limiting their operational autonomy.

May/June 2024

12. What was the primary goal of the financial sector reforms initiated in the 1990s?

(A) To increase government control over financial intermediaries and centralize all lending decisions.
(B) To establish an efficient, productive, and competitive financial services industry operating on market principles.
(C) To limit the operational flexibility and autonomy of banks by imposing a new set of restrictive regulations.
(D) To increase the pre-emption of resources by the government via significantly higher statutory reserve requirements.

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Ans :

(B) To establish an efficient, productive, and competitive financial services industry operating on market principles.
The main objective of the financial sector reforms was to transform the sector from a repressed and inefficient system into a modern one. The goal was to create a financial services industry that was efficient in allocating resources, productive in its operations, and competitive both domestically and globally, operating with greater operational flexibility and functional autonomy.

Oct/Nov 2015

13. Which of the following committees was formed in 1991 to recommend reforms in the Indian financial sector?
(A) Chakaravarti Committee on Monetary Policy
(B) Verma Committee on Weak Banks
(C) Narsimham Committee-I on Financial Sector Reforms
(D) RH Khan Committee on Harmonisation of Role of FIs and Banks

Ans :

(C) Narsimham Committee-I on Financial Sector Reforms
To address the systemic issues in the financial sector, the government formed the Narsimham Committee-I on Financial Sector Reforms in 1991. This committee was pivotal in laying the groundwork for the first generation of banking and financial sector reforms in India, aiming to make the sector more efficient, competitive, and stable.

May/June 2009

14. Arrange the following committees related to financial sector reforms in chronological order of their formation:
1. Narsimham Committee-II
2. Chakaravarti Committee
3. Narsimham Committee-I
4. Verma Committee
(A) 1, 2, 3, 4
(B) 3, 2, 4, 1
(C) 2, 1, 3, 4
(D) 2, 3, 1, 4

Ans :

(D) 2, 3, 1, 4
The chronological order of the committees is as follows: The Chakaravarti Committee on Monetary Policy (1985), the Narsimham Committee-I on Financial Sector Reforms (1991), the Narsimham Committee-II on the Review of Banking Sector Reforms (1997), and the Verma Committee on Weak Banks (1998). This sequence shows the progression of reform-focused thinking in India.

Oct/Nov 2020

15. The banking sector reforms initiated in the 1990s included the introduction of institutional and legal measures such as the formation of which of the following?
(A) Asset Reconstruction Companies
(B) Small Finance Banks
(C) Monetary Policy Committee
(D) NITI Aayog

Ans :

(A) Asset Reconstruction Companies
As part of the institutional and legal measures under banking sector reforms, Asset Reconstruction Companies (ARCs) were established. The purpose of ARCs was to acquire non-performing assets (NPAs) from banks and financial institutions, thereby cleaning up their balance sheets and helping in the resolution of bad loans. This was a critical step in addressing the NPA problem.

NODIA

May/June 2013

16. The first phase of banking sector reforms, based on the recommendations of the Narasimham Committee I, began in which year?
(A) 1991
(B) 1992
(C) 1998
(D) 2000

Ans :

(B) 1992
The Government of India appointed the Narasimham Committee-I to rebuild the financial health of commercial banks. Based on the committee's recommendations, the Reserve Bank of India (RBI) issued new guidelines in February 1992. These guidelines, focusing on income recognition, asset classification, and provisioning, marked the formal beginning of the first phase of banking sector reforms.

Oct/Nov 2005

17. Which of the following was a key reform that took place in 1992 as part of the first phase of banking reforms?
(A) Introduction of the comprehensive Insolvency and Bankruptcy Code for corporate debtors.
(B) Progressive reduction of Cash Reserve Ratio and Statutory Liquidity Ratio.
(C) Nationalisation of all remaining private and foreign commercial banks operating in India.
(D) Establishment of the unified Goods and Services Tax (GST) regime across all states.

Ans :

(B) Progressive reduction of Cash Reserve Ratio and Statutory Liquidity Ratio.
A significant reform implemented in 1992, following the Narasimham Committee-I report, was the progressive reduction of the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). This measure was aimed at reducing the pre-emption of bank resources by the government, thereby making more funds available for banks to lend to the commercial sector.

May/June 2022

18. What was the primary purpose of setting up the Narasimham Committee-II in 1998?
(A) To review banking reform progress and recommend a future programme.
(B) To recommend the complete nationalisation of all private and foreign sector banks.
(C) To introduce stricter restrictions on branch licensing to curtail rapid bank expansion.
(D) To design a new regulatory framework for the establishment of cooperative and rural banks.

Ans :

(A) To review banking reform progress and recommend a future programme.
The Narasimham Committee-II was established in 1998 with the mandate to review the progress of the banking sector reforms that had been initiated since 1991. Its objective was to assess the impact of the first phase and to propose a programme of further financial sector reforms needed to strengthen the Indian financial system and make it internationally competitive.

Oct/Nov 2014

19. Which of the following was a benefit derived from the Second Phase of Banking Sector Reforms (Narasimham Committee-II)?
(A) Stricter regulation of branch licensing
(B) Reduction in capital adequacy norms
(C) Deregulation of Branch Licensing
(D) Increased government control over prudential norms

Ans :

(C) Deregulation of Branch Licensing
One of the key outcomes of the second phase of banking sector reforms, influenced by the Narasimham Committee-II recommendations, was the deregulation of branch licensing. This provided banks with greater autonomy and flexibility in their expansion strategies, fostering competition and improving the reach of banking services without needing prior regulatory approval for every branch.

May/June 2017

20. Prudential reforms in the banking sector involved the application of the 'marked-to-market' principle for which category of assets?
(A) Loans and Advances
(B) Fixed Assets
(C) Cash in Hand
(D) Investment Portfolio

Ans :

(D) Investment Portfolio
Prudential reforms included the phased implementation of international best practices. One such measure was the application of the 'marked-to-market' principle for a bank's investment portfolio, particularly for government securities. This requires banks to value their investments at current market prices, ensuring a more realistic and transparent valuation of assets and reflecting potential interest rate risk.

Oct/Nov 2018

21. The main focus of prudential reforms in the Indian banking system was on three key areas. Which of the following is NOT one of those three areas?
(A) NPAs (Non-Performing Assets)
(B) Capital Adequacy
(C) Human Resources Management
(D) Diversification of Operations

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Ans :

(C) Human Resources Management
The core focus of prudential reforms was on strengthening the financial health and risk management capabilities of banks. The three main areas identified for this purpose were: managing Non-Performing Assets (NPAs), ensuring adequate Capital Adequacy to absorb potential losses, and allowing for the Diversification of operations into new business areas to spread risk and find new revenue streams.

May/June 2025

22. In which Union Budget was the creation of 'differentiated banks' in India announced to direct bank resources to niche areas?
(A) Union Budget 2010
(B) Union Budget 2014
(C) Union Budget 2012
(D) Union Budget 2016

Ans :

(B) Union Budget 2014
To promote financial inclusion and serve the needs of specific segments of the economy, a graded approach to bank licensing was introduced. The creation of 'differentiated banks', such as Small Finance Banks and Payment Banks, was formally announced in the Union Budget of 2014. This policy aimed to direct banking resources towards niche areas efficiently.

Oct/Nov 2010

23. Which body was established as the apex supervisory authority for commercial banks, FIs, and non-banking financial companies as part of supervisory reforms?
(A) The Securities and Exchange Board of India (SEBI)
(B) The Monetary Policy Committee (MPC)
(C) The Financial Stability and Development Council (FSDC)
(D) The Board for Financial Supervision (BFS)

Ans :

(D) The Board for Financial Supervision (BFS)
A key supervisory reform was the establishment of the Board for Financial Supervision (BFS) under the aegis of the Reserve Bank of India. The BFS was set up to provide dedicated and integrated supervision over commercial banks, financial institutions (FIs), and non-banking financial companies (NBFCs), thereby strengthening the overall supervisory framework of the financial system.

NODIA

May/June 2006

24. A bank supervisor is evaluating a commercial bank's performance using the CAMELS rating system. The supervisor finds that the bank's ability to generate profits is weak, impacting its sustainability. Which component of the CAMELS framework is the supervisor concerned about?
(A) E - Earnings
(B) C - Capital Adequacy
(C) M - Management
(D) L - Liquidity

Ans :

(A) E - Earnings
The CAMELS supervisory rating system evaluates a bank's health across six dimensions. The 'E' in CAMELS stands for Earnings. This component assesses the bank's profitability, the quality of its earnings, and its ability to generate sustainable profits to support operations, fund growth, and build capital. A concern about weak profit generation directly relates to the Earnings component.

Oct/Nov 2022

25. What was a major competition reform measure that allowed Public Sector Banks (PSBs) to enhance their capital base?
(A) Merging all PSBs into a single large state-owned entity to eliminate wasteful inter-bank competition.
(B) Restricting their operations exclusively to government business and lending to other public sector units.
(C) Allowing them to raise up to 49% of their paid-up capital from the stock market.
(D) Increasing the government's direct ownership in all PSBs to a full 100% to ensure complete state control.

Ans :

(C) Allowing them to raise up to 49% of their paid-up capital from the stock market.
To improve the competitiveness and financial strength of Public Sector Banks (PSBs), competition reforms were introduced. One significant measure was allowing PSBs to access the capital market to raise funds. This policy permitted the dilution of government ownership,

allowing public shareholding up to 49% of the paid-up capital, thereby enhancing their capital base.

May/June 2015

26. Which of the following is NOT a 'Market Reform' measure undertaken in the Indian banking sector?

(A) Implementation of administered interest rate measures.
(B) Reduction of CRR and SLR rates from previously higher levels.
(C) Discontinuation of ad hoc treasury bills.
(D) Establishment of a pure inter-bank call money market.

Ans :

(A) Implementation of administered interest rate measures.
Market reforms were aimed at moving from a regulated to a market-driven system. Key measures included reducing CRR and SLR, discontinuing ad hoc treasury bills in favor of market-based borrowing, and establishing a pure inter-bank call money market. The implementation of administered interest rates was a characteristic of the pre-reform era, which these reforms sought to dismantle.

Oct/Nov 2009

27. Which Act was adopted as a significant institutional and legal reform to protect creditors' interests and facilitate faster recovery of dues?

(A) The Foreign Exchange Management Act (FEMA), 1999
(B) The Insurance Regulation and Development Act (IRDA), 1999
(C) The Banking Regulation Act, 1949
(D) The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act

Ans :

(D) The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act
The SARFAESI Act was a landmark legal reform aimed at empowering banks and financial institutions to recover their non-performing assets more effectively. It allows them to take possession of and sell the securities pledged for a loan without court intervention, thus protecting creditors' interests and expediting the recovery process, which was a major challenge previously.

May/June 2023

28. What is the primary role of the Clearing Corporation of India Limited (CCIL), established as part of institutional reforms?

(A) To act as the sole authorized credit rating agency for all corporate and municipal bonds.
(B) To act as a central counterparty for settling fixed income securities transactions.
(C) To serve as the primary regulator for all equity and derivative stock exchanges in India.
(D) To provide direct, long-term infrastructure loans to the domestic corporate sector.

Ans :

(B) To act as a central counterparty for settling fixed income securities transactions.
The Clearing Corporation of India Limited (CCIL) was established to reduce risk and improve efficiency in the financial markets. Its primary function is to act as a central counterparty (CCP) for transactions in government securities, foreign exchange, and money markets. By guaranteeing settlement, it mitigates counterparty credit risk for participants in these markets.

Oct/Nov 2019

29. An individual has a complaint against their bank regarding an unauthorized debit, which the bank has failed to resolve satisfactorily for over two months. Which low-cost venue, established in 1995, can the customer approach to resolve this grievance?

(A) Debt Recovery Tribunal (DRT)
(B) A Civil Court
(C) The Banking Ombudsman Scheme
(D) The National Company Law Tribunal (NCLT)

Ans :

(C) The Banking Ombudsman Scheme
The Banking Ombudsman Scheme was established in 1995 to provide a quick and inexpensive forum for bank customers to resolve their complaints. It is specifically designed to handle grievances related to banking services that remain unresolved by the bank itself. This scheme represents a significant step in institutional reforms aimed at protecting consumer interests in the banking sector.

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May/June 2018

30. The enactment of which code in 2016 is expected to have far-reaching implications for strengthening the banking sector in India?
(A) The Indian Penal Code, 1860
(B) The Companies Act, 2013
(C) The Goods and Services Tax Code, 2017
(D) The Insolvency and Bankruptcy Code, 2016

Ans :

(D) The Insolvency and Bankruptcy Code, 2016
The Insolvency and Bankruptcy Code (IBC), 2016, is a comprehensive legal framework aimed at consolidating the insolvency resolution process in India. By providing a time-bound mechanism for resolving insolvency, it is expected to significantly improve the credit culture, facilitate the faster resolution of non-performing assets, and contribute to a stronger and more resilient banking sector.

Oct/Nov 2024

31. Which of the following was established as the financial sector's communication backbone as part of technology reforms?
(A) INFINET (Indian Financial Network)
(B) National Payments Corporation of India (NPCI)
(C) SWIFT (Society for Worldwide Interbank Financial Telecommunication)
(D) NEFT (National Electronic Funds Transfer)

Ans :

(A) INFINET (Indian Financial Network)
As part of the technology improvements in the financial sector, the Indian Financial Network (INFINET) was established. It is a closed user group satellite-based Wide Area Network (WAN) for the banking and financial sector. It serves as the communication backbone for critical inter-bank applications like RTGS, NEFT, and government securities trading, ensuring secure and reliable connectivity.

May/June 2012

32. Read the following excerpt: "While the Digital India revolution catalyzed by PMJDY, e-KYC and UPI has led a paradigm shift in the way India interacts with and consumes financial services. (PMJDY, launched in 2014, has witnessed 420 million bank accounts opened till date. 'JAM' (Jan Dhan-Aadhaar-Mobile) trinity has been a game changer for India...)"
Based on this excerpt, what has been described as a "game changer" for financial inclusion in India?
(A) The establishment of the Digital India revolution alone.
(B) The 'JAM' (Jan Dhan-Aadhaar-Mobile) trinity.
(C) The opening of 420 million bank accounts under PMJDY.
(D) The introduction of e-KYC and UPI services.

Ans :

(B) The 'JAM' (Jan Dhan-Aadhaar-Mobile) trinity.
The excerpt explicitly states that the 'JAM' (Jan Dhan-Aadhaar-Mobile) trinity "has been a game changer for India." While PMJDY, e-KYC, and UPI are all crucial components of the digital revolution, the text specifically highlights the powerful combination of a Jan Dhan bank account, Aadhaar for identity verification, and a Mobile phone for access as the transformative element.

NODIA

Oct/Nov 2011

33. On what date was the Direct Benefit Transfer (DBT) scheme initiated by the Government of India to reform the mechanism of transferring subsidies?
(A) 1 January 2014
(B) 1 January 2013
(C) 1 April 2012
(D) 1 April 2015

Ans :

(B) 1 January 2013
The Direct Benefit Transfer (DBT) program was initiated on January 1, 2013. This marked a significant policy shift aimed at changing the mechanism for transferring government subsidies and benefits. Instead of providing in-kind subsidies, the program facilitates the direct transfer of cash benefits into the bank accounts of beneficiaries, leveraging technology to reduce leakages and delays.

May/June 2008

34. As part of Debt Market Reforms, which instrument was introduced specifically for managing liquidity and for benchmarking purposes?
(A) 91-day Treasury bill
(B) Zero Coupon Bonds

(C) Capital Indexed Bonds
(D) Floating Rate Bonds

Ans :

(A) 91-day Treasury bill
The introduction of the 91-day Treasury bill was a key measure under the debt market reforms. This short-term government security serves a dual purpose: it is used by the government for managing its short-term liquidity needs, and its yield serves as a crucial benchmark for pricing other short-term money market instruments, enhancing transparency and market development.

Oct/Nov 2006

35. What is the full form of NDS, an automated screen-based trading system introduced as part of debt market reforms?
(A) National Debt System
(B) New Depository System
(C) Negotiated Dealing System
(D) National Derivatives System

Ans :

(C) Negotiated Dealing System
The introduction of the Negotiated Dealing System (NDS) was a major technological upgrade in the government securities market. NDS is an electronic platform for trading government securities and money market instruments. It facilitates screen-based trading and reporting of transactions, which has significantly improved transparency, price discovery, and efficiency in the debt market.

May/June 2010

36. What settlement system was introduced to ensure transparency in the trading of government securities?
(A) Real Time Gross Settlement (RTGS)
(B) National Electronic Funds Transfer (NEFT)
(C) T+2 Rolling Settlement
(D) Delivery versus Payment (DvP)

Ans :

(D) Delivery versus Payment (DvP)
To enhance safety and transparency in the government securities market, the Delivery versus Payment (DvP) settlement system was introduced. DvP is a mechanism that ensures the transfer of securities occurs only if the corresponding payment is made. This eliminates the principal risk that securities could be delivered without receiving payment, or vice versa, thereby strengthening the settlement process.

Oct/Nov 2023

37. Which facility, operating through repo and reverse repo auctions, has emerged as the RBI's primary tool for liquidity management and interest rate signaling?
(A) Market Stabilization Scheme (MSS)
(B) Marginal Standing Facility (MSF)
(C) Liquidity Adjustment Facility (LAF)
(D) Standing Deposit Facility (SDF)

Ans :

(C) Liquidity Adjustment Facility (LAF)
The Liquidity Adjustment Facility (LAF) was introduced as a key tool for managing short-term liquidity in the banking system. It operates through repo and reverse repo auctions, allowing banks to borrow from or park funds with the RBI. The LAF corridor (the gap between repo and reverse repo rates) also serves as a signaling device for overnight interest rates.

May/June 2007

38. What was the purpose of introducing the Market Stabilization Scheme (MSS)?
(A) To provide long-term infrastructure loans directly to large domestic corporate entities.
(B) To manage surplus liquidity arising from large foreign capital inflows.
(C) To act as the sole primary settlement system for all domestic equity and derivatives trades.
(D) To provide direct income support and various input subsidies to the agricultural sector.

Ans :

(B) To manage surplus liquidity arising from large foreign capital inflows.
The Market Stabilization Scheme (MSS) was introduced as an additional instrument for monetary management. Its specific purpose is to absorb surplus structural liquidity from the banking system, which typically arises from large and sustained foreign capital inflows. Under MSS, the RBI issues government securities to mop up this excess liquidity, distinct from its regular market operations.

Oct/Nov 2013

39. A significant reform in the Indian currency market was the replacement of the Foreign

NODIA

Exchange Regulation Act (FERA), 1973 with which new legislation?
(A) Foreign Exchange Control Act (FECA), 1999
(B) Foreign Investment Promotion Act (FIPA), 2000
(C) Foreign Trade Development and Regulation Act (FTDR), 1992
(D) Foreign Exchange Management Act (FEMA), 1999

Ans :

(D) Foreign Exchange Management Act (FEMA), 1999
A cornerstone of the foreign exchange market reforms was the replacement of the stringent Foreign Exchange Regulation Act (FERA), 1973. The new legislation, the Foreign Exchange Management Act (FEMA), 1999, was enacted to create a more liberal and facilitative legal framework for managing foreign exchange, shifting the focus from conservation and control to management and facilitation of external trade.

May/June 2020

40. The reforms in the foreign exchange market permitted authorized dealers to initiate trading positions and invest in overseas markets, subject to ratification by whom?
(A) Respective Banks' Boards
(B) The Ministry of Finance
(C) The Securities and Exchange Board of India (SEBI)
(D) The Foreign Investment Promotion Board (FIPB)

Ans :

(A) Respective Banks' Boards
As part of the liberalization of the foreign exchange market, authorized dealer banks were given greater autonomy. They were permitted to initiate their own trading positions and to borrow and invest in overseas markets. However, these activities were subject to certain specifications and required ratification by their own respective Boards, placing the responsibility on the banks' internal governance.

Oct/Nov 2017

41. The passing of which Act in 1999 led to the creation of the Insurance Regulatory and Development Agency (IRDA)?
(A) The Life Insurance Corporation Act, 1956
(B) The General Insurance Business (Nationalisation) Act, 1972
(C) The Insurance Regulation and Development Act, 1999
(D) The SEBI Act, 1992

Ans :

(C) The Insurance Regulation and Development Act, 1999
The insurance sector was opened up for private participation through the enactment of the Insurance Regulation and Development Act in 1999. This landmark legislation paved the way for the entry of private players, including joint ventures with foreign partners. It also led to the establishment of the Insurance Regulatory and Development Agency (IRDA) to govern and oversee the industry.

May/June 2016

42. What is the term for the cross-selling of insurance products through bank branches, a practice that grew with insurance sector reforms?
(A) Bancassurance
(B) Co-insurance
(C) Reinsurance
(D) Micro-insurance

Ans :

(A) Bancassurance
Following the insurance sector reforms, companies began exploring innovative distribution channels. One such channel is 'Bancassurance', which refers to the practice of banks selling insurance products of an insurance company. This cross-selling model leverages the wide distribution network of banks to offer insurance products to their existing customer base, benefiting both entities.

Oct/Nov 2016

43. The formation of which body in 1992 was a significant move to regulate and develop the capital markets in India?
(A) Reserve Bank of India (RBI)
(B) National Stock Exchange (NSE)
(C) Unit Trust of India (UTI)
(D) Securities and Exchange Board of India (SEBI)

Ans :

(D) Securities and Exchange Board of India (SEBI)

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The establishment of the Securities and Exchange Board of India (SEBI) as the statutory regulator for capital markets was a landmark reform. Granted statutory powers in 1992, SEBI's primary mandate is to protect the interests of investors, promote the development of the securities market, and regulate its functioning to ensure efficiency, transparency, and prevent unfair trade practices.

May/June 2021

44. An Indian software company wants to raise capital directly from U.S. investors by listing its equity on the New York Stock Exchange. Which of the following instruments, introduced as part of capital market reforms, would be most appropriate for this purpose?

(A) Global Depository Receipts (GDRs)
(B) American Depository Receipts (ADRs)
(C) Foreign Currency Convertible Bonds (FCCBs)
(D) External Commercial Borrowings (ECBs)

Ans :

(B) American Depository Receipts (ADRs)
Capital market reforms opened avenues for Indian corporates to access international capital. American Depository Receipts (ADRs) are specific instruments that allow a foreign company to trade its shares on a U.S. stock exchange. Since the company wants to list specifically in the U.S., ADRs are the designated instrument, whereas GDRs are typically used for listing in Europe.

Oct/Nov 2007

45. Which of the following was NOT a reform that took place in the Indian Capital Markets?

(A) Establishment of independent Creditors Rating Agencies to assess debt instruments.
(B) Migration of Mutual Funds from a commission-based to a fee-based advisory system.
(C) Introduction of fixed weekly settlement cycles instead of a rolling settlement system.
(D) Significant growth and regulation of the Derivative and Commodity Trading markets.

Ans :

(C) Introduction of fixed weekly settlement cycles instead of a rolling settlement system.
Capital market reforms focused on increasing efficiency and reducing risk. A key reform was the move from fixed settlement cycles (e.g., weekly) to a rolling settlement system (e.g., T+2), where trades are settled a fixed number of days after the trade date. This change reduced settlement risk and improved market liquidity, making the opposite of the statement true.

May/June 2014

46. The text states: "International trade (the sum of exports and imports of goods and services expressed in percentage of GDP) has increased from 15.5% of India's GDP in 1991 to 55.6% in 2011. As GDP growth has recently outpaced trade growth, the ratio has dropped to 37.9% by 2020." What can be inferred from this data?

(A) India's integration with the global economy, measured by trade to GDP ratio, has consistently increased since 1991.
(B) The absolute value of India's international trade decreased between 2011 and 2020.
(C) India's GDP growth was slower than its trade growth between 2011 and 2020.
(D) The ratio of international trade to GDP was highest in 2011 among the years mentioned.

Ans :

(D) The ratio of international trade to GDP was highest in 2011 among the years mentioned.
The data clearly shows the trade-to-GDP ratio was 15.5% in 1991, peaked at 55.6% in 2011, and then dropped to 37.9% by 2020. This indicates that 2011 saw the highest level of trade integration relative to GDP among the three data points provided. The drop by 2020 was because GDP growth outpaced trade growth, not necessarily because trade value fell.

Oct/Nov 2025

47. How did the net inflow of Foreign Direct Investment (FDI) as a percentage of GDP change from 1991 to 2020?

(A) It rose from 0.03% to 2.42%.
(B) It decreased from 2.42% to 0.03%.
(C) It remained constant at 2.42%.
(D) It first rose to 55.6% and then dropped to 37.9%.

Ans :

(A) It rose from 0.03% to 2.42%.
The reforms significantly boosted foreign investor confidence. The data reflects this with the net inflow of FDI as a percentage of GDP showing a substantial increase. It grew from a negligible 0.03% of GDP in 1991 to a much more significant

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2.42% of GDP by 2020, highlighting the success of policies aimed at attracting foreign capital.

May/June 2005

48. What is a significant challenge posed by India's enhanced global integration, as mentioned in the chapter?

(A) A decrease in the country's economic potential.
(B) The economy becoming more sensitive to external shocks.
(C) A decline in foreign investment inflows.
(D) The inability to execute important policy reforms.

Ans :

(B) The economy becoming more sensitive to external shocks.
While enhanced global integration is broadly beneficial, it comes with risks. As an economy becomes more intertwined with global markets through trade and capital flows, it also becomes more vulnerable to external shocks. This includes volatility in foreign capital flows and the potential for reversals, which can pose significant challenges for domestic policymakers in managing economic stability.

Oct/Nov 2012

49. According to Jagdish Bhagwati, which of the following is one of the three categories that explain India's economic failure leading up to the 1990s crisis?

(A) Outward-looking trade and foreign investment policies.
(B) Strong bureaucratic controls over production, investment, and trade.
(C) Highly efficient public-sector enterprise functioning.
(D) An over-reliance on the private sector for economic growth.

Ans :

(B) Strong bureaucratic controls over production, investment, and trade.
Jagdish Bhagwati identified three primary causes for India's economic underperformance pre-1991. One of these was the prevalence of strong bureaucratic controls over nearly every aspect of economic activity, including production (licensing), investment, and trade. This "license-permit raj" stifled efficiency, innovation, and growth, contributing significantly to the economic crisis that eventually unfolded.

May/June 2019

50. What was the impact of the 1990 oil shock (due to Iraq's invasion of Kuwait) on India's already weak economy?

(A) It had a disproportionately large impact, triggering a severe economic crisis.
(B) It had a minimal and negligible impact due to the economy's strong resilience.
(C) It unexpectedly led to a large surplus in the country's balance of payments.
(D) It caused a sharp and sudden decrease in domestic inflation rates due to global factors.

Ans :

(A) It had a disproportionately large impact, triggering a severe economic crisis.
By 1990, years of poor economic policies had severely weakened the Indian economy's resilience. Consequently, the modest oil shock of 1990 had a disproportionately severe and amplified impact. This external shock, hitting a vulnerable economy, was a major trigger that pushed the country into a full-blown economic catastrophe, one of the worst in its post-independence history.

Oct/Nov 2021

51. The text states: "The government's ever-increasing non-developmental expenditure harmed its economic health, eventually increasing the fiscal deficit from 5.1% of GDP in the early 1980s to 8.4% in 1990–1991. The government borrowed to reduce the fiscal deficit, causing the domestic debt to rise from 33.3% of GDP in the early 1980s to over 50% of GDP towards the end of 1990–1991."
What was the direct consequence of the government borrowing to cover its fiscal deficit?

(A) A decrease in non-developmental expenditure.
(B) A reduction in the fiscal deficit to 5.1%.
(C) A rise in domestic debt as a percentage of GDP.
(D) A decrease in the burden of debt payment.

Ans :

(C) A rise in domestic debt as a percentage of GDP.
The excerpt explicitly links the government's borrowing to a rise in domestic debt. To finance

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its growing fiscal deficit, which was fueled by non-developmental expenditure, the government resorted to borrowing. This action directly caused the stock of domestic debt to increase significantly, from 33.3% of GDP in the early 1980s to over 50% by 1990-91.

May/June 2011

52. What happened to India's current account deficit between 1980-1981 and 1990-1991?
(A) It decreased from 3.69% of GDP to 1.35% of GDP.
(B) It remained stable at 1.35% of GDP.
(C) It turned into a surplus of 2.34% of GDP.
(D) It increased from 1.35% of GDP to 3.69% of GDP.

Ans :

(D) It increased from 1.35% of GDP to 3.69% of GDP.
The decade leading up to the 1991 crisis saw a significant deterioration in India's external accounts. The current account deficit (CAD), which reflects the difference between a country's savings and investments, worsened considerably. It grew from 1.35% of GDP in 1980-81 to an unsustainable level of 3.69% of GDP in 1990-91, indicating a severe balance of payments problem.

Oct/Nov 2008

53. The rising current account deficit in the late 1980s was exacerbated by which external event?
(A) A surge in foreign remittances from Arabian nations.
(B) A global decrease in oil prices.
(C) A drop in foreign remittances from Arabian nations due to the gulf crisis.
(D) The signing of the General Agreement on Tariffs and Trade (GATT).

Ans :

(C) A drop in foreign remittances from Arabian nations due to the gulf crisis.
India's balance of payments situation was already precarious due to poor domestic policies. The situation was made worse by the Gulf Crisis of 1990. This crisis led to a sharp drop in the crucial inflow of foreign remittances from Indian workers in Arabian nations, further straining the country's foreign exchange earnings and exacerbating the current account deficit.

May/June 2024

54. By the end of 1990-1991, India's foreign exchange reserves had fallen to a low of US$ 1.2 billion, which was equivalent to how many weeks' worth of imports?
(A) Ten weeks
(B) Two weeks
(C) Eight weeks
(D) Four weeks

Ans :

(B) Two weeks
The balance of payments crisis reached a critical point where India's foreign exchange reserves dwindled to alarming levels. By 1990-91, the reserves had fallen to just US$ 1.2 billion. This amount was barely sufficient to cover the country's import bill for two weeks, pushing India to the brink of a sovereign default on its international debt obligations.

Oct/Nov 2015

55. How did the average annual rate of inflation change from the period 1980-1989 to the year 1990-1991?
(A) It decreased from 11.3% to 6.4%.
(B) It remained constant at around 6.4%.
(C) It turned into deflation from a high of 11.3%.
(D) It skyrocketed from about 6.4% to 11.3%.

Ans :

(D) It skyrocketed from about 6.4% to 11.3%.
The economic crisis of 1990-91 was also marked by high, double-digit inflation. While the average annual inflation rate was a manageable 6.4% during the 1980s, it surged to 11.3% in 1990-91. This galloping inflation was primarily caused by massive deficit financing throughout the 1980s, which increased the money supply, and was compounded by supply-side constraints.

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May/June 2009

56. When did India officially begin its "big-bang" economic reform process in response to the fiscal and balance-of-payment crisis?
(A) July 23, 1991
(B) July 23, 1985
(C) August 15, 1990
(D) January 26, 1992

Ans :

(A) July 23, 1991

In response to the severe economic crisis, the new government initiated a comprehensive series of reform measures. This "big-bang" economic reform process, which marked a decisive shift in India's economic policy, officially began on July 23, 1991. These reforms were much wider and deeper than the limited changes attempted in the mid-1980s, fundamentally altering the economy's trajectory.

Oct/Nov 2020

57. According to the flowchart on economic reforms, which of the following falls under 'Macroeconomic Stabilization' measures?
(A) Industrial Policy Reforms
(B) Infrastructure Reforms
(C) Balance of Payment Reforms
(D) Financial Sector Reforms

Ans :

(C) Balance of Payment Reforms
The economic reforms are broadly categorized into two types. Macroeconomic Stabilization measures were short-term policies aimed at correcting the immediate problems of high inflation and an adverse balance of payments. As per the flowchart, Balance of Payment Reforms, along with fiscal policy, monetary policy, and inflation control, fall under this category to restore economic stability.

May/June 2013

58. Based on the provided flowchart, 'Structural Adjustment Reforms' include all of the following EXCEPT:
(A) Tax Reforms
(B) Industrial Policy Reforms
(C) Agriculture Reforms
(D) Financial Sector Reforms

Ans :

(A) Tax Reforms
The flowchart distinguishes between two sets of reforms. Structural Adjustment Reforms were long-term policies aimed at improving the efficiency and international competitiveness of the economy. This category includes Industrial Policy, Infrastructure, Agriculture, and Financial Sector Reforms. Tax Reforms, however, are shown as a component of Fiscal Policy Reforms, which fall under the broader head of Macroeconomic Stabilization.

Oct/Nov 2005

59. Match List-I (Reform Area) with List-II (Specific Reform).
List-I
P. Supervisory Reform
Q. Institutional Reform
R. Technology Reform
S. Competition Reform
List-II
1. Establishment of Debt Recovery Tribunals (DRT)
2. Implementation of CAMELS rating system
3. Permitting private banks to operate
4. Establishment of INFINET
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-3, R-1, S-4
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-2, Q-1, R-4, S-3
The correct matching is as follows: The implementation of the CAMELS rating system was a key Supervisory Reform (P-2). The establishment of Debt Recovery Tribunals was an Institutional and Legal Reform (Q-1). The creation of INFINET as a communication backbone was a Technology Reform (R-4). Permitting private banks to operate was a Competition Reform (S-3).

May/June 2022

60. Which of the following statements about the economic reforms is incorrect?
(A) The reforms of the 1990s were broader in scope than those of the 1980s.
(B) Privatisation refers to limiting the private sector's role and expanding the public sector's role.
(C) The Narasimham Committee-I was formed in 1991 for financial sector reforms.
(D) The SARFAESI Act was an institutional reform to facilitate faster debt recovery.

Ans :

(B) Privatisation refers to limiting the private sector's role and expanding the public sector's role.
The statement about privatisation is incorrect. Privatisation, as part of the LPG reforms, involved providing the private sector with more opportunities and, correspondingly, limiting the

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role of the public sector. The objective was to enhance efficiency and competition by reducing the state's dominance in various economic sectors, which is the opposite of what the statement claims.

Oct/Nov 2014

61. Consider the following statements regarding prudential reforms in the banking sector:

1. They included the phased implementation of international best practices.
2. They involved the application of the marked-to-market principle for a bank's investment portfolio.
3. They focused on increasing the Statutory Liquidity Ratio (SLR).

Which of the above statements is/are correct?

(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(B) 1 and 2 only

Prudential reforms aimed to strengthen the banking system's risk management. This involved adopting international best practices and rules, such as applying the marked-to-market principle for valuing investment portfolios to reflect market risk accurately. The third statement is incorrect; a key reform was the progressive reduction, not an increase, of SLR and CRR to free up bank resources.

May/June 2017

62. Assertion (A): The introduction of the Liquidity Adjustment Facility (LAF) was a significant market reform.

Reason (R): LAF operates through repo and reverse repo auctions, serving as a tool for liquidity management and as a signaling device for short-term interest rates.

(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.

Assertion (A) is true as the LAF was a pivotal market reform. Reason (R) is also true and correctly explains why. The LAF's mechanism of using repo and reverse repo auctions allows the RBI to manage daily liquidity in the banking system and establishes a corridor for overnight interest rates, making it a key instrument for monetary policy signaling.

Oct/Nov 2018

63. Read the following excerpt: "Prior to reform, banks in India were uncompetitive and inefficient, due to excessive government control and limited access for private and foreign sector banks. The government extended PSBs operational autonomy and lowered public ownership in such banks, through reform measures that allowed them to obtain capital from the stock market, up to 49 per cent of paid-up capital."

What was the stated limit for public ownership reduction in PSBs mentioned in this excerpt?

(A) Allowed PSBs to obtain up to 49% of paid-up capital from the stock market.
(B) Allowed PSBs to obtain up to 100% of their paid-up capital from the domestic stock market.
(C) Mandated that PSBs be completely privatized, resulting in zero remaining public ownership.
(D) Mandated that public ownership in all PSBs be increased to a minimum of 51% to ensure control.

Ans :

(A) Allowed PSBs to obtain up to 49% of paid-up capital from the stock market.

The excerpt clearly details the competition reforms for Public Sector Banks (PSBs). It specifies that reform measures were introduced to lower public ownership by allowing PSBs to access the stock market for capital. The explicit limit mentioned for this capital raising activity was "up to 49% of paid-up capital," thus diversifying their ownership base.

May/June 2025

64. A newly established private sector bank in 1995 is setting up its treasury operations. It needs a mechanism to trade government securities electronically with other banks and report transactions efficiently. Which platform, introduced as part of the technology and debt

market reforms, would the bank use for this purpose?
(A) Express Cheque Clearing Process (ECCS)
(B) Negotiated Dealing System (NDS)
(C) Banking Ombudsman Scheme
(D) Core Banking Solution (CBS)

Ans :

(B) Negotiated Dealing System (NDS)
The Negotiated Dealing System (NDS) was the specific platform introduced as part of reforms for screen-based, electronic trading of government securities. For a bank setting up its treasury operations to trade these instruments, the NDS would be the essential infrastructure. It improved transparency, price discovery, and efficiency over the previous telephone-based market, making it a critical technology reform.

Oct/Nov 2010

65. Identify the incorrect pair regarding committees and their focus area.
(A) Narsimham Committee-I : Financial Sector Reforms
(B) Chakaravarti Committee : Harmonisation of Role of FIs and Banks
(C) Padmanabhan Committee : Review of Bank Supervision
(D) Verma Committee : Weak Banks

Ans :

(B) Chakaravarti Committee : Harmonisation of Role of FIs and Banks
The Chakaravarti Committee (1985) was focused on the review of the Monetary System/Policy. The committee that worked on the Harmonisation of the Role of FIs and Banks was the RH Khan Committee (1998). The other pairs are correctly matched: Narsimham Committee-I on financial sector reforms, Padmanabhan Committee on bank supervision, and the Verma Committee on weak banks.

May/June 2006

66. Consider the following statements about India's economic reforms.
1. The reforms of 1991 were triggered by a severe balance of payments crisis.
2. The term LPG stands for Liberalisation, Privatisation, and Globalisation.
3. A key objective of the reforms was to decrease foreign direct investment.
4. The reforms led to a reduction in poverty and an improvement in socioeconomic indices.

Which of the statements are correct?
(A) 1, 2 and 3
(B) 2, 3 and 4
(C) 1, 2 and 4
(D) 1, 3 and 4

Ans :

(C) 1, 2 and 4
Statements 1, 2, and 4 are correct. The 1991 reforms were a direct response to a severe BoP crisis. The reforms are famously known as LPG. The economic transformation did lead to poverty reduction and improved socioeconomic indicators. Statement 3 is incorrect as a primary goal was to attract, not decrease, significant foreign direct investment to boost the economy.

Oct/Nov 2022

67. A multinational corporation based in Europe wishes to invest in an Indian company by purchasing its shares on the Bombay Stock Exchange, without taking a controlling stake. This type of investment is facilitated by post-reform policies. What would this investment be classified as?
(A) Foreign Direct Investment (FDI)
(B) External Commercial Borrowing (ECB)
(C) Portfolio Investment (FPI)
(D) American Depository Receipt (ADR)

Ans :

(C) Portfolio Investment (FPI)
The reforms liberalized capital inflows. When a foreign entity invests in the shares of a domestic company through the stock market without acquiring a controlling stake, it is classified as Foreign Portfolio Investment (FPI). This is distinct from FDI, which implies a more long-term interest and significant influence or control over the enterprise, a key distinction in capital account reforms.

May/June 2015

68. Read the following excerpt: "Adoption of the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act and subsequent amendments to protect creditors' interests. Establishment of the Credit Information Bureau for the information exchange on defaulters as well as other borrowers..."
Which two institutional reforms are highlighted

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in this passage?
(A) Establishment of Lok Adalats and Debt Recovery Tribunals.
(B) Creation of Asset Reconstruction Companies and the Banking Ombudsman Scheme.
(C) Enactment of the IBC and establishment of the CCIL.
(D) Adoption of the SARFAESI Act and establishment of a Credit Information Bureau.

Ans :

(D) Adoption of the SARFAESI Act and establishment of a Credit Information Bureau.
The provided text explicitly mentions two specific institutional and legal reforms. The first is the adoption of the SARFAESI Act, which empowers creditors. The second is the establishment of the Credit Information Bureau, designed to facilitate the sharing of credit information on borrowers, including defaulters, to improve lending decisions and reduce credit risk in the system.

Oct/Nov 2009

69. Which of the following is a key feature of the 'Globalisation' component of India's economic reforms?
(A) Imposition of high tariffs to protect domestic industries from foreign competition.
(B) Restriction on the flow of foreign capital and technology.
(C) Encouragement of FDI and international trade with various countries.
(D) A move towards economic isolation to build domestic capacity.

Ans :

(C) Encouragement of FDI and international trade with various countries.
Globalisation, as a pillar of the 1991 reforms, fundamentally meant integrating the Indian economy with the global economy. This policy actively encouraged foreign direct investment (FDI) and international trade with other nations. The goal was to attract foreign capital, technology, and knowledge to enhance India's domestic productive capacity and foster greater economic interdependence for mutual growth.

May/June 2023

70. The High-Level Committee that created the "IT Vision Document—2011–2017" for the Reserve Bank and banks was chaired by whom?
(A) M. Narasimham
(B) Dr. K.C. Chakrabarty
(C) C. Rangarajan
(D) Y.V. Reddy

Ans :

(B) Dr. K.C. Chakrabarty
As part of the ongoing technology reforms in the banking sector, a High-Level Committee was formed to create a roadmap for increased IT usage. This committee, which included representatives from IIT, IIM, IDRBT, banks, and the RBI, was chaired by Dr. K.C. Chakrabarty. It produced the "IT Vision Document—2011–2017," guiding technological adoption in the industry.

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CHAPTER 8

Foreign Trade Policy, Foreign Investments & Economic Development

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May/June 2016

1. What is the primary function of a Foreign Trade Policy as described in the context of economic policies?

(A) To exclusively manage the nation's internal tax collection and fiscal deficit.

(B) To govern an economy's export-import activity and contribute to national prosperity.

(C) To regulate domestic production levels without any consideration for international trade.

(D) To control the flow of foreign currency by restricting all forms of investment.

Ans :

(B) To govern an economy's export-import activity and contribute to national prosperity.

Foreign Trade Policy is an economic policy that specifically governs a country's export and import activities. A well-formulated policy is crucial as it enhances the local economy's output, contributes to the nation's overall prosperity, and is a critical component of the broader economic process, alongside policies like Foreign Investment Policy.

Oct/Nov 2009

2. Which of the following best describes the state of the Indian economy's trade policy prior to 1991?

(A) It was a protectionist economy with high tariffs, taxes, and significant quantitative restrictions.

(B) It was characterized by free trade, low tariffs, and unrestricted foreign investment.

(C) It was an open economy with a primary focus on export promotion through subsidies.

(D) It encouraged foreign investment in all sectors without any government oversight.

Ans :

(A) It was a protectionist economy with high tariffs, taxes, and significant quantitative restrictions.

Before 1991, the Indian economy operated under a protectionist regime. This policy was marked by the presence of high tariffs and taxes on imports, alongside significant quantitative restrictions that limited the volume of goods that could be imported. Furthermore, foreign investment was not generally permitted, reflecting a strategy of protecting domestic industries from external competition.

May/June 2023

3. What were the primary drivers behind the trade liberalisation measures implemented by the Indian government after 1991?

(A) A desire to increase protectionism and reduce industry competitiveness.

(B) Pressure from domestic industries to reduce exports and focus on the local market.

(C) Concerns about globalisation, strengthening industry competitiveness, and an adverse balance of payments.

(D) A government mandate to nationalise all private sector industries involved in international trade.

Ans :

(C) Concerns about globalisation, strengthening industry competitiveness, and an adverse balance of payments.

The trade liberalisation measures post-1991 were a significant departure from previous protectionist policies. These reforms were primarily driven by concerns related to integrating the Indian economy with the global economy (globalisation), the need to make domestic industries more competitive, and addressing an adverse balance of payments scenario that the country was facing at the time.

Oct/Nov 2018

4. In what year did the Indian government launch the Foreign Trade Policy (FTP) for the period 2015-2020?

(A) April 1, 2014
(B) March 31, 2015
(C) January 1, 2016
(D) April 1, 2015

Ans :

(D) April 1, 2015
The Government of India officially launched its Foreign Trade Policy for the 2015-2020 period on April 1, 2015. This policy was designed to provide a comprehensive framework for promoting India's exports of goods and services, aligning with other national initiatives like 'Make in India' and aiming for substantial growth in the country's international trade engagement.

May/June 2007

5. What was the specific target set by the Foreign Trade Policy 2015-20 for India's merchandise and services exports by the year 2019-20?
(A) To increase exports from $465 billion to $750 billion.
(B) To decrease exports to $300 billion to protect domestic industry.
(C) To increase exports from $465 billion to $900 billion.
(D) To maintain exports at the existing level of $465 billion.

Ans :

(C) To increase exports from $465 billion to $900 billion.
A key objective of the Foreign Trade Policy 2015-20 was to significantly boost India's exports. The policy set an ambitious target to nearly double the country's merchandise and services exports from the base level of $465 billion in the 2013-14 fiscal year to a new target of $900 billion by the 2019-20 fiscal year.

Oct/Nov 2025

6. The Foreign Trade Policy 2015-20 aimed to increase India's share of global exports from what initial percentage to a new target percentage?
(A) From 1% to 2.5%
(B) From 2% to 3.5%
(C) From 3% to 5%
(D) From 0.5% to 1.5%

Ans :

(B) From 2% to 3.5%
Besides the absolute value target for exports, the Foreign Trade Policy 2015-20 also set a goal for increasing India's relative contribution to global trade. The policy aimed to raise India's share in total global exports from the existing level of 2% to a more significant share of 3.5% by the end of the policy period.

May/June 2012

7. What were the two new schemes introduced under the Foreign Trade Policy 2015-20?
(A) Focus Product Scheme (FPS) and Focus Market Scheme (FMS)
(B) Duty Free Import Authorisation (DFIA) and Export Promotion Capital Goods (EPCG)
(C) Vishesh Krishi Gram Udyog Yojana (VKGUY) and Served from India Scheme (SFIS)
(D) Merchandise Exports from India Scheme (MEIS) and Services Exports from India Scheme (SEIS)

Ans :

(D) Merchandise Exports from India Scheme (MEIS) and Services Exports from India Scheme (SEIS)
The FTP 2015-20 introduced two flagship schemes to streamline and promote exports. These were the 'Merchandise Exports from India Scheme (MEIS)' for promoting the export of specified goods to designated markets and the 'Services Exports from India Scheme (SEIS)' for encouraging the export of designated services, replacing several earlier, more complex incentive schemes.

Oct/Nov 2014

8. The Merchandise Export from India Scheme (MEIS) replaced a group of five earlier schemes. Which of the following was NOT one of the schemes merged into MEIS?
(A) Served from India Scheme (SFIS)
(B) Focus Product Scheme
(C) Market Linked Focus Product Scheme
(D) Vishesh Krishi Gram Udyog Yojana (VKGUY)

Ans :

(A) Served from India Scheme (SFIS)
The MEIS consolidated five previous schemes related to merchandise exports: Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agricultural Infrastructure Incentive Scrip, and Vishesh Krishi Gram Udyog Yojana (VKGUY). The Served from India Scheme (SFIS) was a services export scheme and was

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replaced by the Services Exports from India Scheme (SEIS), not MEIS.

May/June 2019

9. Under the FTP 2015-20, the Services Exports from India Scheme (SEIS) replaced which earlier scheme?
(A) Focus Market Scheme (FMS)
(B) Agricultural Infrastructure Incentive Scrip
(C) Served from India Scheme (SFIS)
(D) Export Promotion Capital Goods (EPCG)

Ans :

(C) Served from India Scheme (SFIS)
The Foreign Trade Policy 2015-20 streamlined the export incentive structure by replacing the earlier 'Served from India Scheme (SFIS)' with the new 'Services Exports from India Scheme (SEIS)'. This new scheme aimed to promote the export of designated services and was applicable to "Service Providers located in India," broadening the eligibility criteria from the previous scheme.

Oct/Nov 2006

10. Read the following excerpt and answer the question below.
"Earlier there were five different schemes (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agricultural Infrastructure Incentive Scrip, Vishesh Krishi Gram Udyog Yojana - VKGUY) for rewarding merchandise exports, with different kinds of duty scrips with varying conditions attached to their use. All these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS), and there was no conditionality attached to the scrips issued under the scheme."
What was the primary benefit of merging five different reward schemes into the single Merchandise Export from India Scheme (MEIS)?
(A) It simplified the reward structure and removed varying conditions attached to scrips.
(B) It increased the number of conditions attached to duty scrips.
(C) It introduced conditionality for the first time on duty scrips.
(D) It restricted the transferability of the duty scrips issued to exporters.

Ans :

(A) It simplified the reward structure and removed varying conditions attached to scrips.
The excerpt clearly states that the five earlier schemes had "different kinds of duty scrips with varying conditions attached to their use." By merging them into the single MEIS, the primary advantage was simplification and the removal of these complex and varying conditions, as the text notes "there was no conditionality attached to the scrips issued under the scheme."

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May/June 2021

11. What significant change was made regarding the applicability of the Service Exports from India Scheme (SEIS) compared to its predecessor?
(A) SEIS applied only to "Indian Service Providers," thereby restricting its scope to domestically-owned firms.
(B) SEIS was limited to service providers in the public sector only, excluding all private entities.
(C) SEIS was applicable only to individual service providers, not to corporations or partnerships.
(D) SEIS applied to "Service Providers located in India," regardless of their constitution or profile.

Ans :

(D) SEIS applied to "Service Providers located in India," regardless of their constitution or profile.
A key change introduced with SEIS was the broadening of its eligibility criteria. It applied to "Service Providers located in India" rather than being restricted to "Indian Service Providers." This change meant that the scheme's benefits were available to any service provider operating from India, irrespective of their specific constitution or ownership profile, promoting a wider base of service exports.

Oct/Nov 2010

12. Under the FTP 2015-20, what was the status of duty scrips issued under the MEIS and SEIS schemes?
(A) They were non-transferable and could only be used by the original exporter.
(B) They were fully transferable and could be used for payment of various duties.
(C) They could only be used for the payment of income tax.
(D) They were transferable only after obtaining

special permission from the DGFT.

Ans :

(B) They were fully transferable and could be used for payment of various duties.
A significant feature of the FTP 2015-20 was that all duty scrips issued under both MEIS and SEIS, as well as the goods imported against them, were made fully transferable. This flexibility allowed exporters to either use the scrips themselves for paying duties like customs and excise or sell them to other importers, enhancing their liquidity and utility.

May/June 2005

13. To boost the 'Make in India' initiative, the FTP 2015-20 offered a special incentive under the Export Promotion Capital Goods (EPCG) scheme. What was this incentive?
(A) The export obligation was raised to 125% as a penalty for sourcing capital goods domestically.
(B) The export obligation was fully waived for any domestic procurement of approved capital goods.
(C) The export obligation was reduced to 75% for domestically sourced capital goods.
(D) A direct cash subsidy was offered to offset the costs of importing specified capital goods.

Ans :

(C) The export obligation was reduced to 75% for domestically sourced capital goods.
To encourage domestic manufacturing and support the 'Make in India' campaign, the FTP 2015-20 provided a specific benefit under the EPCG scheme. If an exporter chose to procure capital goods from a domestic manufacturer instead of importing them, their specific export obligation linked to those capital goods was reduced to 75% of the normal obligation.

Oct/Nov 2022

14. Which of the following measures was introduced under FTP 2015-20 to facilitate trade and ease of doing business?
(A) Mandatory submission of hard copies for all incentive and duty exemption schemes.
(B) Requirement to provide physical copies of permanent records with each new application.
(C) Discontinuation of all e-mail based communication with DGFT committees.
(D) Allowing digital submission of landing paperwork for export consignments for designated markets.

Ans :

(D) Allowing digital submission of landing paperwork for export consignments for designated markets.
The FTP 2015-20 emphasized trade facilitation and ease of doing business through digitalization. A key measure was the elimination of the need for hard copies of applications and specified papers for incentive schemes. It specifically allowed landing documents for export consignments to be submitted digitally as evidence for designated markets, moving towards a paperless environment.

May/June 2018

15. An export-oriented unit plans to import new machinery for its factory. However, to support local industry, it decides to purchase the capital goods from an Indian manufacturer instead. Under the provisions of the Export Promotion Capital Goods (EPCG) scheme in FTP 2015-20, what advantage does the unit gain?
(A) Its specific export obligation associated with the machinery is reduced.
(B) It receives a 100% waiver of all customs duties on future imports.
(C) It becomes automatically eligible for 'Status Holder' recognition.
(D) The machinery is provided free of cost by the government.

Ans :

(A) Its specific export obligation associated with the machinery is reduced.
The case describes a scenario directly addressed by the 'Make in India' boost within the FTP 2015-20. When an exporter under the EPCG scheme procures capital goods from a domestic producer, the policy rewards this choice by reducing the associated specific export obligation to 75% of the normal level, thereby incentivizing domestic sourcing and manufacturing.

Oct/Nov 2016

16. What recognition is given to business leaders who succeed in international trade and contribute significantly to a country's overseas trade?
(A) Niryat Bandhu
(B) Status Holders

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(C) Approved Exporter
(D) Exim Facilitator

Ans :

(B) Status Holders
The policy framework recommends that business leaders who have demonstrated success in international trade and made effective contributions to the nation's exports be recognized as 'Status Holders'. This recognition comes with special treatment and privileges designed to facilitate their trade transactions, thereby reducing their transaction costs and time, and encouraging continued high performance in exports.

May/June 2014

17. Which statement correctly identifies a highlight of the Foreign Trade Policy 2015-2020?
(A) It focused exclusively on increasing goods exports, completely excluding the services sector from its scope.
(B) It framed a policy for increasing exports and value addition, aligning with 'Make in India'.
(C) It aimed to actively decrease employment generation to promote full automation within the export sector.
(D) It sought to deliberately isolate the Indian economy from the international trading system and global supply chains.

Ans :

(B) It framed a policy for increasing exports and value addition, aligning with 'Make in India'.
A key highlight of the FTP 2015-20 was its comprehensive approach. It provided a framework not just for increasing exports of both goods and services, but also for generating employment and increasing value addition within the country. This was strategically aligned with the government's broader 'Make in India' programme to strengthen the domestic manufacturing base.

Oct/Nov 2007

18. What was the value threshold for e-commerce exports of specified items like handloom products and books to be eligible for benefits under the MEIS scheme?
(A) Up to INR 25,000
(B) Up to INR 50,000
(C) Up to INR 1,00,000
(D) Up to INR 5,000

Ans :

(A) Up to INR 25,000
To promote exports through e-commerce channels, the FTP 2015-20 extended the benefits of the Merchandise Exports from India Scheme (MEIS) to certain products. Exports of items like handloom products, books, leather footwear, toys, and customised fashion garments through courier or foreign post office were eligible for MEIS benefits for consignments with values up to INR 25,000.

May/June 2025

19. The 'Approved Exporter System' introduced in FTP 2015-20 provided what specific benefit to manufacturers who are also status holders?
(A) They were exempted from paying all forms of export duties.
(B) They received a 100% subsidy on all shipping and logistics costs.
(C) They could self-certify their manufactured goods as originating from India.
(D) They could import raw materials completely duty-free without any conditions.

Ans :

(C) They could self-certify their manufactured goods as originating from India.
The 'Approved Exporter System' was a significant trade facilitation measure for trusted exporters. It empowered manufacturers who were also designated as status holders to self-certify that their goods originated from India. This was particularly beneficial for qualifying for preferential treatment under various bilateral and regional trade agreements, ensuring faster access to international markets.

Oct/Nov 2019

20. Which of the following is NOT a facility extended to units under the 100% EOU/EHTP/STPI/BTP Schemes as per the policy?
(A) Access to a special fast track clearance facility for imports and exports.
(B) Authorization for inter-unit transfer of both finished goods and related services.
(C) Approval to establish and operate warehouses located near the port of export.
(D) Permission for 100% duty-free sales in the domestic market.

Ans :

NODIA

(D) Permission for 100% duty-free sales in the domestic market.

The policy introduced several measures to encourage manufacturing and exports under schemes like EOU (Export Oriented Units). These included fast-track clearance, allowing inter-unit transfers, and permitting warehouses near ports. However, these units are primarily for export and while some domestic sale is allowed under rules, selling 100% in the domestic market without duties is not a permitted facility.

May/June 2009

21. The 'Niryat Bandhu Scheme' was galvanised and repositioned under FTP 2015-20 to achieve the objectives of which other major Government of India initiative?

(A) Make in India
(B) Digital India
(C) Skill India
(D) Swachh Bharat Abhiyan

Ans :

(C) Skill India

The 'Niryat Bandhu Scheme,' which is focused on mentoring new and potential exporters, was specifically repositioned to align with and help achieve the objectives of the 'Skill India' initiative. This strategic alignment aimed to develop the necessary skills and knowledge base for international trade, thereby creating a new generation of skilled entrepreneurs in the export sector.

Oct/Nov 2011

22. A small artisan group in Rajasthan specializing in customized leather footwear receives an order from a buyer in the USA. The total value of the consignment is INR 22,000. They plan to ship it using a courier service. Under the FTP 2015-20, which incentive are they most likely eligible for?

(A) Benefits under the Services Exports from India Scheme (SEIS).
(B) Benefits under the Merchandise Exports from India Scheme (MEIS).
(C) A reduction in their export obligation under the EPCG scheme.
(D) A special grant from the Niryat Bandhu Scheme.

Ans :

(B) Benefits under the Merchandise Exports from India Scheme (MEIS).

The case fits the specific provision for e-commerce exports. The FTP 2015-20 allowed e-commerce exports of specified items, including leather footwear, through courier services to get benefits under MEIS, provided the value of the consignment was up to INR 25,000. Since the value is INR 22,000, the artisan group would be eligible for MEIS benefits.

May/June 2010

23. What is a major objective of the new Foreign Trade Policy regarding the operational environment?

(A) To increase the number of physical documents required for verification.
(B) To limit official communication to office hours only (9 AM to 5 PM).
(C) To centralize all documentation processes in a single physical office in New Delhi.
(D) To move towards a paperless working environment operating 24×7.

Ans :

(D) To move towards a paperless working environment operating 24×7.

A key focus area and a major objective of the new Foreign Trade Policy is trade facilitation and enhancing the ease of doing business. A central part of this objective is to transition towards a completely paperless working system that is accessible and operational on a 24×7 basis, leveraging technology to reduce time and costs for exporters.

Oct/Nov 2024

24. What has been identified as a primary reason for the severe negative impact on India's international trade earnings, as highlighted by the pandemic and trade protectionism?

(A) Overdependence on a few export items and a few trading markets.
(B) Over-diversification into too many products and markets.
(C) Excessive focus on service exports at the expense of merchandise exports.
(D) A trade policy that is overly focused on imports rather than exports.

Ans :

(A) Overdependence on a few export items and a few trading markets.

Recent global disruptions, including the pandemic and protectionist trends, have exposed a vulnerability in India's trade structure. The

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text highlights that India's overdependence on a limited number of export products and a few major trading partners has had a severe negative impact, as any disruption in these specific areas cannot be easily offset.

May/June 2017

25. Read the following excerpt and answer the question below.

"India's high export orientation in a few large trading partners and a few products preclude its ability to fully offset any sharp decline in exports. India needs to diversify its trading partners, both export markets and import sources, and find alternate high value products... Exploring opportunities in new markets in Africa, South-East Asia and Latin America through strategic investments... is important."

Based on the excerpt, what is the recommended strategy for India to mitigate the risk of a sharp decline in exports?

(A) To increase concentration on its existing large trading partners.
(B) To focus solely on reducing imports from all countries.
(C) To diversify its export products and explore new geographical markets.
(D) To abandon high-value products and focus on low-value, high-volume goods.

Ans :

(C) To diversify its export products and explore new geographical markets.

The excerpt explicitly states that India's high concentration on a few partners and products is a problem. The recommended solution is to "diversify its trading partners, both export markets and import sources" and to explore "opportunities in new markets in Africa, South-East Asia and Latin America." This points directly to diversification as the key risk mitigation strategy.

Oct/Nov 2005

26. To enhance the competitiveness of Indian exports, what critical reform area, besides trade policy, is mentioned as being imperative in the post-COVID-19 world order?

(A) Reforms in land, labour laws, and environmental clearance processes.
(B) Implementing higher tariffs and more stringent quantitative import restrictions.
(C) Making the environmental clearance processes significantly stricter and more prolonged.
(D) A deliberate policy of strategic retreat from all forms of international globalization.

Ans :

(A) Reforms in land, labour laws, and environmental clearance processes.

The text suggests that for India to realign its trade strategy effectively post-COVID-19, it must look beyond just trade policies. It is imperative for India to explore significant reforms in areas like land and labour laws, ensure speedy environmental clearances, and increase domestic production to enhance the overall competitiveness of its exports and attract investment.

May/June 2020

27. Which of the following is NOT a challenge or area for reform mentioned to be addressed in the upcoming Foreign Trade Policy (FTP)?

(A) Broadening the range of export products and target markets.
(B) Establishing alternative international payment and settlement mechanisms.
(C) Promoting the efficacy and export readiness of individual States.
(D) Increasing import dependence on China to achieve cost reductions.

Ans :

(D) Increasing import dependence on China to achieve cost reductions.

The text explicitly identifies the need to diversify import suppliers, especially for products with high import orientation from countries like China. Therefore, increasing dependence on China is the opposite of the recommended strategy. The other options—diversifying exports, setting up new payment mechanisms, and promoting state-level export efficacy—are all mentioned as key areas for the upcoming FTP.

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Oct/Nov 2015

28. Which of the following statements about Foreign Direct Investment (FDI) is correct?

(A) FDI is a short-term investment made by a foreign investor to gain partial, non-controlling ownership.
(B) FDI is an investment made by a foreign investor, often a company, to control the ownership of an entity.

(C) FDI is primarily aimed at trading in the stock market for quick profits and capital gains.
(D) FDI is discouraged by governments as it reduces domestic employment and harms local businesses.

Ans :

(B) FDI is an investment made by a foreign investor, often a company, to control the ownership of an entity.
Foreign Direct Investment (FDI) is defined as an investment made by a foreign investor with the objective of establishing a lasting interest and control over the ownership of an enterprise in the host country. It is considered a key engine of economic growth, helping to enhance productivity and generate employment, unlike short-term portfolio investments.

May/June 2013

29. According to the data provided, what was the trend of Net FDI in India between 2004-05 and 2021-22?
(A) It decreased from $36.6 billion to $3.7 billion.
(B) It remained constant at $3.7 billion.
(C) It increased from $3.7 billion to $36.6 billion.
(D) It decreased by 16.7% from an initial value of $3.7 billion.

Ans :

(C) It increased from $3.7 billion to $36.6 billion.
The text states that Net FDI has increased from $3.7 billion in 2004-05 to $36.6 billion by 2021-22. This shows a substantial increase over the period, highlighting the growing inflow of foreign direct investment into the Indian economy. The 16.7% decrease mentioned refers to a year-on-year change for 2021-22, not the overall trend since 2004-05.

Oct/Nov 2021

30. Which of the following sectors is NOT mentioned as one where FDI has been liberalised by the Indian government?
(A) Defence and Broadcasting
(B) Civil Aviation and Private Sector Banking
(C) Construction and Plantation
(D) Atomic Energy and Railway Operations

Ans :

(D) Atomic Energy and Railway Operations
The text lists Defence, construction, broadcasting, civil aviation, plantation, trade, private sector banking, satellite installation, and credit information companies as sectors that have been liberalised. Atomic Energy and Railway Operations are mentioned later in the chapter as sectors where FDI is prohibited or not open to private sector investment, hence they are not liberalised sectors.

May/June 2024

31. What are the two channels through which Foreign Direct Investment (FDI) enters the Indian domestic economy?
(A) The RBI's automatic route and the government route.
(B) The SEBI route and the Ministry of Finance route.
(C) The Stock Exchange route and the Commercial Bank route.
(D) The NITI Aayog route and the Prime Minister's Office route.

Ans :

(A) The RBI's automatic route and the government route.
FDI in India is channeled through two main entry points. The first is the automatic route, managed by the Reserve Bank of India (RBI), which does not require prior approval. The second is the government route, which is for specific sectors or investment types that require prior permission from the relevant government ministry or department before investment.

Oct/Nov 2008

32. What is the key characteristic of the 'Automatic Route' for FDI in India?
(A) It requires prior approval from the Cabinet Committee on Economic Affairs for all investments.
(B) It allows FDI without prior approval from the Government or the RBI.
(C) It is permitted only for investments below Rs. 5,000 crores.
(D) It is exclusively for investments coming from Pakistan.

Ans :

(B) It allows FDI without prior approval from the Government or the RBI.
The automatic route is the most liberalised channel for FDI. Its defining characteristic is that it permits foreign investment in specified activities and sectors without the need for any

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prior approval from either the Government of India or the Reserve Bank of India. The investor only needs to comply with post-investment reporting requirements.

May/June 2006

33. Under the automatic route for FDI, what is the first step of the two-stage reporting process for an Indian company receiving funds?

(A) Reporting to the RBI within 30 days of issuing shares to the non-resident investor.
(B) Reporting to the concerned regional office of the RBI within 30 days of receipt of the investment amount.
(C) Seeking approval from the administrative ministry before receiving any funds.
(D) Submitting documentation to the Cabinet Committee on Economic Affairs.

Ans :

(B) Reporting to the concerned regional office of the RBI within 30 days of receipt of the investment amount.
The two-stage reporting process for FDI via the automatic route has a clear sequence. The first stage requires the Indian company that receives the investment to report the transaction to the concerned regional office of the RBI. This report must be made within 30 days of the receipt of the share application money or amount of consideration from the investor.

Oct/Nov 2017

34. For which type of FDI proposals is prior clearance from the Cabinet Committee on Economic Affairs (CCEA) mandatory?

(A) Proposals involving a total foreign equity infusion of more than Rs. 5,000 crores.
(B) All proposals under the automatic route.
(C) All proposals involving FDI from Pakistan.
(D) All proposals in the broadcasting and print media sectors.

Ans :

(A) Proposals involving a total foreign equity infusion of more than Rs. 5,000 crores.
While the government route requires approval from the relevant administrative ministry, very large investment proposals are subject to a higher level of scrutiny. Any proposal for foreign investment that involves a total foreign equity infusion exceeding Rs. 5,000 crores must receive clearance from the Cabinet Committee on Economic Affairs (CCEA).

May/June 2008

35. Read the following excerpt and answer the question below.
"The Indian firm that receives FDI through the automatic route must follow the terms of the FDI policy, including reporting the FDI and issuing shares to the RBI. The investor must follow a two-stage reporting process. First, the Indian company is required to report to the foreign exchange department, regional office concerned of the RBI... within 30 days of receipt of share application money...; and second, upon issue of shares to non-resident investors, the company is required to submit required documentation..."
What is the second stage of the reporting process for an Indian company receiving FDI under the automatic route?

(A) Reporting to the RBI within 30 days of receiving the funds.
(B) Obtaining prior approval from the government.
(C) Submitting required documentation to the RBI upon the issue of shares.
(D) Applying for clearance from the Cabinet Committee on Economic Affairs.

Ans :

(C) Submitting required documentation to the RBI upon the issue of shares.
The excerpt clearly outlines a two-stage process. The first stage is reporting the receipt of funds within 30 days. The second stage, which occurs "upon issue of shares to non-resident investors," requires the company to submit the necessary documentation to the relevant regional office of the RBI, completing the reporting formality for the investment.

Oct/Nov 2013

36. Which country's FDI proposals are specifically mentioned as being placed under the government route, requiring prior permission regardless of the sector?

(A) USA
(B) Japan
(C) Germany
(D) Pakistan

Ans :

(D) Pakistan

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The text explicitly states that as a matter of policy, all Foreign Direct Investment (FDI) from Pakistan is placed under the government route. This means any investment proposal originating from Pakistan requires prior government permission and cannot use the automatic route, irrespective of the sector or the amount of investment involved.

May/June 2015

37. What is the FDI limit and entry route for the Agriculture & Animal Husbandry sector in India?
(A) 74%, Government Route
(B) 49%, Automatic Route
(C) 100%, Automatic Route
(D) 51%, Government Route

Ans :

(C) 100%, Automatic Route
According to the provided table on "Sector wise FDI Flow routes and Limits to India," the Agriculture & Animal Husbandry sector is open for foreign investment. The policy allows for a 100% FDI limit in this sector, and the entry mechanism is through the Automatic Route, meaning no prior government approval is required.

Oct/Nov 2012

38. In the Defence Manufacturing sector, what is the FDI limit permitted through the Automatic Route for a new defence industrial license?
(A) 100%
(B) 74%
(C) 49%
(D) 26%

Ans :

(B) 74%
The FDI policy for Defence Manufacturing has specific conditions. As per the table, up to 74% FDI is permitted through the Automatic Route for companies seeking a new defence industrial license. Investment beyond 74% and up to 100% is possible but requires approval through the Government Route, particularly for access to modern technology.

May/June 2011

39. What is the FDI limit for the Print Media sector in India, and which entry route is applicable?
(A) 100%, Automatic
(B) 49%, Government
(C) 74%, Automatic
(D) 26%, Government

Ans :

(D) 26%, Government
The FDI policy for the Print Media sector is relatively restrictive. The "Sector wise FDI Flow routes and Limits to India" table clearly indicates that the foreign direct investment limit in this sector is capped at 26%. Furthermore, any such investment must be made through the Government Route, requiring prior approval.

Oct/Nov 2020

40. For Civil Aviation - Air Transport Services, what is the rule for FDI above 49%?
(A) It is permitted under the Government route, with 100% automatic for NRIs.
(B) It is completely prohibited.
(C) It is permitted up to 100% under the Automatic route.
(D) It requires special permission from the Ministry of Civil Aviation only.

Ans :

(A) It is permitted under the Government route, with 100% automatic for NRIs.
The FDI policy for Air Transport Services has a tiered structure. Investment up to 49% is allowed via the Automatic Route. For investment above 49%, the proposal must go through the Government Route for approval. A special provision allows Non-Resident Indians (NRIs) to invest up to 100% through the Automatic Route.

May/June 2022

41. What is the maximum FDI allowed in Private Security Agencies and what are the route conditions?
(A) 100% under the Automatic route.
(B) 49% under the Government route only.
(C) 74%, with up to 49% automatic and above 49% via the Government route.
(D) 51% under the Government route only.

Ans :

(C) 74%, with up to 49% automatic and above 49% via the Government route.
As per the provided FDI table, the total FDI limit in Private Security Agencies is 74%. The entry is structured in two tiers: investment up to 49% is permitted under the Automatic Route, while any investment above 49% and up to the 74%

cap requires approval through the Government Route.

Oct/Nov 2023

42. In the 'Satellites- establishment and operation' sector, what is the FDI limit and entry route?
(A) 100%, Government
(B) 100%, Automatic
(C) 74%, Government
(D) 49%, Automatic

Ans :

(A) 100%, Government
The FDI table shows that for the 'Satellites-establishment and operation' sector, a 100% FDI limit is permitted. However, due to the sensitive and strategic nature of this sector, all such investments are subject to the sectoral guidelines of the Department of Space/ISRO and must be approved through the Government Route.

May/June 2016

43. For Single Brand retail trading, what is the FDI policy regarding the investment limit and entry route?
(A) 51% through the Government route.
(B) 100% through the Government route only.
(C) 100% through the Automatic route only.
(D) 100%, with up to 49% automatic and above 49% via the Government route.

Ans :

(D) 100%, with up to 49% automatic and above 49% via the Government route.
The FDI policy for Single Brand retail trading allows for 100% foreign ownership. The entry is tiered: investments up to 49% are permitted through the Automatic Route. For any investment stake higher than 49% and up to the 100% limit, the proposal must be processed and approved through the Government Route.

Oct/Nov 2009

44. What are the FDI limit and entry route for Multi Brand Retail Trading in India?
(A) 100%, Automatic
(B) 51%, Government
(C) 49%, Government
(D) 74%, Automatic

Ans :

(B) 51%, Government
According to the "Sector wise FDI Flow routes and Limits to India" table, the policy for Multi Brand Retail Trading is more restrictive than for single brand. The maximum FDI allowed is capped at 51%, and all such investment proposals must be approved through the Government Route, reflecting a more cautious approach to this sub-sector.

May/June 2023

45. What is the FDI limit for Public Sector Banks in India?
(A) 74%
(B) 49%
(C) 20%
(D) 100%

Ans :

(C) 20%
The FDI policy distinguishes between private and public sector banks. While private banks have a higher limit, the FDI table specifies that for Public Sector Banks, the foreign investment limit is capped at 20%. Furthermore, this investment must come through the Government Route, indicating tight regulatory control over foreign ownership in state-owned banks.

Oct/Nov 2018

46. For which of the following sectors is 100% FDI permitted through the Automatic Route?
(A) Multi Brand Retail Trading
(B) Print Media
(C) Public Sector Banking
(D) Credit Information Companies (CIC)

Ans :

(D) Credit Information Companies (CIC)
Based on the provided FDI table, Credit Information Companies (CIC) are a sector where the government allows 100% foreign direct investment. Moreover, this investment is permitted through the Automatic Route, which simplifies the investment process by not requiring prior government approval. The other options have lower limits and/or require government approval.

May/June 2007

47. What is the permitted FDI limit in the Insurance sector as per the provided table?
(A) 74%
(B) 49%

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(C) 100%
(D) 26%

Ans :

(A) 74%
The FDI table indicates that the foreign direct investment limit for the Insurance sector has been set at 74%. The entry route specified for this level of investment is Automatic, which signifies a significant liberalization of the sector to attract more foreign capital and expertise, subject to regulatory norms of the IRDAI.

Oct/Nov 2025

48. In the Pharmaceuticals sector, what is the distinction in the entry route for Greenfield and Brownfield FDI?
(A) Both are under the Government route.
(B) Greenfield is 100% automatic, while Brownfield is automatic up to 74% and government route above 74%.
(C) Greenfield is automatic up to 74%, while Brownfield is 100% automatic.
(D) Both are 100% automatic.

Ans :

(B) Greenfield is 100% automatic, while Brownfield is automatic up to 74% and government route above 74%.
The policy for the Pharmaceuticals sector differentiates between new and existing investments. For Greenfield projects (new facilities), 100% FDI is allowed via the Automatic Route. For Brownfield projects (acquiring existing firms), FDI up to 74% is automatic, but any investment above 74% requires approval through the Government Route.

May/June 2012

49. Which of the following pairs of Sector and FDI Entry Route is INCORRECTLY matched?
(A) E-commerce activities - Automatic
(B) Broadcasting Content Services - Automatic
(C) Food products manufactured or produced in India - Government
(D) Railway Infrastructure - Automatic

Ans :

(B) Broadcasting Content Services - Automatic
According to the FDI table, Broadcasting Content Services has an FDI limit of 49% and falls under the Government Route, not the Automatic Route. The other pairs are correctly matched: E-commerce and Railway Infrastructure are 100% Automatic, and Food products manufactured/ produced in India is 100% Government Route.

Oct/Nov 2014

50. An investor wants to set up a new chain of Duty Free Shops at Indian airports. What is the FDI limit and route applicable to this venture?
(A) 100%, Automatic Route
(B) 74%, Government Route
(C) 51%, Government Route
(D) 100%, Government Route

Ans :

(A) 100%, Automatic Route
The "Sector wise FDI Flow routes and Limits to India" table clearly lists 'Duty Free Shops' as a distinct sector. For this specific activity, the policy permits a 100% Foreign Direct Investment limit, and the entry mechanism specified is the Automatic Route, facilitating straightforward investment in this airport-related retail segment.

May/June 2019

51. What is the FDI limit and entry route for an 'Infrastructure Company in the Securities Market'?
(A) 100%, Automatic
(B) 74%, Government
(C) 49%, Automatic
(D) 20%, Government

Ans :

(C) 49%, Automatic
As per the provided table, for an Infrastructure Company in the Securities Market (such as a stock exchange or a depository), the foreign direct investment is capped at 49%. This investment is permitted through the Automatic Route, subject to regulations from the Securities and Exchange Board of India (SEBI).

Oct/Nov 2006

52. A foreign banking corporation wishes to invest in a private sector bank in India. It initially plans to acquire a 40% stake and later increase it to 60% How would the FDI policy apply to these two stages of investment?
(A) Both stages require Government route approval.
(B) The 40% stake is automatic, and the increase to 60% also falls under the automatic route.
(C) Both stages are prohibited as FDI in private

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banks is capped at 49%.

(D) The 40% stake is automatic, but the subsequent increase to 60% requires Government route approval.

Ans :

(D) The 40% stake is automatic, but the subsequent increase to 60% requires Government route approval.

The FDI table for 'Banking - Private Sector' specifies a limit of 74%. The route is 'Automatic up to 49%' and 'Above 49% & up to 74% under Government route'. Therefore, the initial 40% stake is permitted automatically. However, to increase the stake to 60% (which is above 49%), the corporation must seek approval through the Government route.

May/June 2021

53. Which of the following best defines 'Greenfield FDI'?

(A) An investment where a foreign firm purchases shares in an existing, competing local company.

(B) An investment made jointly by a foreign firm and a local government to share operational profits.

(C) An investment where a foreign parent builds a new subsidiary's operations from scratch.

(D) An investment made exclusively in agricultural projects approved by the environmental ministry.

Ans :

(C) An investment where a foreign parent builds a new subsidiary's operations from scratch.

Greenfield FDI is a type of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. The text provides McDonald's, Hyundai India, and Pepsi India as examples of companies that established their own new subsidiaries and built their operations "from the scratch."

Oct/Nov 2010

54. The acquisition of Ranbaxy India by Daiichi Sankyo of Japan is given as an example of which type of FDI?

(A) Greenfield FDI

(B) Brownfield FDI

(C) Joint Venture

(D) Portfolio Investment

Ans :

(B) Brownfield FDI

Brownfield FDI occurs when a multinational corporation purchases or acquires an existing firm in the host country. The text explicitly cites the example of Daiichi Sankyo, a Japanese company, acquiring Ranbaxy India, an established Indian pharmaceutical firm. This is a classic case of a brownfield investment, as it involves a change of ownership of an existing asset.

May/June 2005

55. What is the defining characteristic of a 'Joint Venture' in the context of FDI?

(A) A foreign company building its own wholly-owned subsidiary from the ground up.

(B) A foreign company acquiring 100% of a local firm to gain full market control.

(C) A short-term investment in the stock market of the host country for quick capital gains.

(D) A foreign company and a local company agreeing to share investment, technology, and profits.

Ans :

(D) A foreign company and a local company agreeing to share investment, technology, and profits.

A Joint Venture is a form of FDI where a foreign entity and a domestic company collaborate. As defined in the text, it is based on an agreement where the two companies join up to share investment, technology, profits, and other resources. The example of Hero Honda is provided to illustrate this collaborative business model.

Oct/Nov 2022

56. A European car manufacturer decides to enter the Indian market. Instead of building a new factory, it purchases a majority stock in an existing, publicly-listed Indian automobile company to use its manufacturing plants and distribution network. What type of foreign investment does this represent?

(A) Brownfield FDI

(B) Greenfield FDI

(C) Foreign Institutional Investment (FII)

(D) Joint Venture

Ans :

(A) Brownfield FDI

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The scenario describes a foreign corporation buying stock in an established firm in the host country, which is the definition of Brownfield FDI. The European company is not building operations "from the scratch" (which would be Greenfield) but is acquiring an existing entity. It is a direct investment for control, not a portfolio investment (FII).

May/June 2018

57. Which of the following is an example of Greenfield FDI mentioned in the chapter?
(A) Daiichi Sankyo's acquisition of Ranbaxy
(B) Hero Honda
(C) Hyundai India
(D) Tata's acquisition of Jaguar Land Rover

Ans :

(C) Hyundai India
The chapter provides specific examples for each type of FDI. For Greenfield FDI, where a parent company builds a subsidiary from scratch in the destination country, the text explicitly lists McDonald's, Pepsi India, and Hyundai India as examples. Daiichi Sankyo-Ranbaxy is a Brownfield example, and Hero Honda is a Joint Venture example.

Oct/Nov 2016

58. According to the list of FDI Prohibited Sectors, in which of the following activities is FDI NOT allowed in India?
(A) Lottery Business
(B) Defence Manufacturing
(C) Broadcasting Content Services
(D) Private Sector Banking

Ans :

(A) Lottery Business
The text provides a specific list of sectors where FDI is prohibited. This list includes the Lottery Business (both Government and private), Gambling and Betting, Chit funds, and Nidhi companies, among others. The other options listed—Defence Manufacturing, Broadcasting, and Private Sector Banking—are sectors where FDI is permitted, albeit with specific limits and conditions.

May/June 2014

59. A foreign investment fund is exploring opportunities in India. Its analyst proposes investing in a company that operates a 'Chit Fund'. Based on India's FDI policy, what advice should the fund receive?
(A) The investment is allowed up to 49% through the automatic route.
(B) The investment is allowed up to 100% through the government route.
(C) The investment is allowed only if it is a joint venture with an Indian partner.
(D) The investment is completely prohibited.

Ans :

(D) The investment is completely prohibited.
The case involves an investment in a Chit Fund. According to the "FDI Prohibited Sectors" list provided in the chapter, FDI is explicitly prohibited and not allowed to function in the Chit funds sector. Therefore, the correct advice would be that this investment is not permissible under any route or condition in India.

Oct/Nov 2007

60. Which of the following activities is prohibited for Foreign Direct Investment (FDI) in India?
(A) Construction of townships and residential premises.
(B) Manufacturing of cigars and cigarettes.
(C) Development of roads and bridges.
(D) White Label ATM Operations.

Ans :

(B) Manufacturing of cigars and cigarettes.
The list of FDI prohibited sectors explicitly includes the "Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes." While Real Estate Business is prohibited, this exclusion does not apply to the development of townships, residential/ commercial premises, roads, or bridges. White Label ATM Operations are permitted 100% FDI automatically.

May/June 2025

61. Which statement best describes Foreign Institutional Investment (FII)?
(A) It is a long-term, stable investment in physical assets like machines and factories for production.
(B) It is a type of investment that is prohibited in India's primary and secondary capital markets.
(C) It refers to short-term capital invested in stocks or hedge funds and is generally volatile.

(D) It is an investment made to gain controlling ownership and management rights of a foreign company.

Ans :

(C) It refers to short-term capital invested in stocks or hedge funds and is generally volatile.
The text defines Foreign Institutional Investment (FII), also known as Foreign Portfolio Investment (FPI), as short-term capital invested in financial assets like stocks and hedge funds. A key characteristic of FII is its volatility, as it can be withdrawn quickly due to economic slumps, political turmoil, or herd behaviour, leading to capital flight.

Oct/Nov 2019

62. What is the primary difference between FDI and FII in terms of investment perspective?
(A) FDI has a short-term perspective, while FII has a long-term perspective.
(B) Both FDI and FII have an identical long-term perspective.
(C) Both FDI and FII are primarily focused on short-term gains.
(D) FDI has a long-term perspective, while FII has a short-term perspective.

Ans :

(D) FDI has a long-term perspective, while FII has a short-term perspective.
A fundamental distinction highlighted in the comparison table between FDI and FII is their time horizon. FDI is considered a long-term investment, as it involves building or acquiring physical operations. In contrast, FII is characterized by a short-term perspective, as it involves liquid financial assets that can be bought and sold quickly for profit.

May/June 2009

63. Based on the table "Difference Between FDI and FII", analyze the following statements:
Statement 1: FDI goes directly into the production of goods and services.
Statement 2: FII goes into hedge funds, short-term equities, and securities.
Which of the following is correct?
(A) Only Statement 1 is correct.
(B) Only Statement 2 is correct.
(C) Both Statement 1 and Statement 2 are correct.
(D) Both Statement 1 and Statement 2 are incorrect.

Ans :

(C) Both Statement 1 and Statement 2 are correct.
The provided comparison table explicitly states that FDI "goes directly into machines, i.e., in the production of goods and services." This validates Statement 1. The table also states that FII "goes into hedge funds, short-term equities, and securities, etc." This validates Statement 2. Therefore, both statements accurately reflect the information given in the source.

Oct/Nov 2011

64. Why is FII often referred to as 'hot money'?
(A) Because it is primarily invested in high-temperature industrial processes like steel or glass manufacturing.
(B) Because it is generally volatile and can be withdrawn quickly, posing a threat of capital flight.
(C) Because it typically originates from countries located in hot climates, especially within the tropical zone.
(D) Because it is assumed to generate very high profits for the host country's government via direct taxation.

Ans :

(B) Because it is generally volatile and can be withdrawn quickly, posing a threat of capital flight.
The comparison table explicitly states that FII "is also called hot money." This is because FII is highly volatile and liquid. Investors can recall their funds at very short notice, especially during economic or political instability. This potential for rapid outflow, or capital flight, is why it is termed 'hot money'.

May/June 2010

65. Which of the following correctly distinguishes between Economic Growth and Economic Development?
(A) Economic Growth is considered a much broader and more inclusive concept than Economic Development.
(B) Development includes improved quality of life, while Growth is only about increased output.
(C) Economic Growth measures qualitative changes, whereas Development focuses on quantitative changes in output.
(D) Economic Development is considered the

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primary prerequisite needed to achieve any Economic Growth.

Ans :

(B) Development includes improved quality of life, while Growth is only about increased output. The chapter clearly differentiates the two concepts. Economic Growth refers to the quantitative increase in the amount of goods and services produced (real national income). Economic Development is a wider concept that, in the context of a growing economy, includes qualitative improvements like poverty reduction, lower unemployment, reduced inequality, and better living standards.

Oct/Nov 2024

66. Which of the following is considered an indicator of Economic Growth?
(A) Per capita income
(B) Human Development Index (HDI)
(C) Gini Coefficient
(D) Physical Quality of Life Index (PQLI)

Ans :

(A) Per capita income
The table comparing Economic Growth and Economic Development lists specific indicators for each. Indicators for Economic Growth are quantitative measures of output and income, such as GDP, GNI, and Per capita income. Indicators like HDI, Gini Coefficient, and PQLI are used to measure the broader, multi-dimensional aspects of Economic Development.

May/June 2017

67. Read the following excerpt and answer the question below.
"Economic development is defined as a sustained improvement in a society's material well-being. Apart from national income growth, it encompasses social, cultural, political, and economic developments that contribute to material progress. These reforms contribute to the larger goals of guaranteeing more equitable income distribution, more employment, and poverty reduction."
According to this definition, what does economic development encompass beyond national income growth?
(A) Only political developments and institutional architecture.
(B) An increase in a country's net national product only.
(C) Social, cultural, political, and economic changes aimed at equitable progress.
(D) Changes in technology and skills, excluding social factors.

Ans :

(C) Social, cultural, political, and economic changes aimed at equitable progress.
The excerpt defines economic development as a broad concept. It explicitly states that "Apart from national income growth, it encompasses social, cultural, political, and economic developments." It further clarifies that these changes aim for goals like equitable income distribution, employment, and poverty reduction, all of which constitute equitable progress beyond just a rise in output.

Oct/Nov 2005

68. How is the relationship between economic growth and economic development described in the chapter?
(A) Economic growth comes after economic development.
(B) The two concepts are identical and interchangeable.
(C) Economic development is a subset of economic growth.
(D) Economic growth is the precursor and prerequisite for economic development.

Ans :

(D) Economic growth is the precursor and prerequisite for economic development.
The comparison table in the chapter explicitly states, "Economic Growth is the precursor and prerequisite for economic development. It is the subset of economic development." This means that an increase in national income (growth) is necessary to provide the resources for the broader improvements (development) in quality of life, education, and health to occur.

May/June 2020

69. Which statement accurately reflects the dimensionality of economic growth versus economic development?
(A) Both growth and development are considered to be equally multi-dimensional in their nature.
(B) Economic growth is multi-dimensional, whereas economic development is considered single-dimensional.

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(C) Growth is single-dimensional (income), while development is multi-dimensional (income and living standards).
(D) Both growth and development are considered to be strictly single-dimensional in their nature.

Ans :

(C) Growth is single-dimensional (income), while development is multi-dimensional (income and living standards).
The comparison table highlights this key difference. It states that "Economic growth is single dimensional in nature as it only focuses on income of the people." In contrast, "Economic development is multi-dimensional in nature as it focuses on both income and improvement of living standards of the people," encompassing a wider range of factors.

NODIA

Oct/Nov 2015

70. For which group of countries is the metric of economic growth considered more relevant for assessment?
(A) For developing countries exclusively.
(B) For developed countries.
(C) For all countries equally.
(D) For least-developed countries only.

Ans :

(B) For developed countries.
The final point in the comparison table addresses the relevance of these metrics. It states that "Economic growth is more relevant metric for assessing progress in developed countries," as they have already achieved high levels of development. Conversely, "Economic development is more relevant to measure progress and quality of life in developing countries."

CHAPTER 9

International Economic Organisations (World Bank, IMF, etc.)

Oct/Nov 2014

1. What is the primary purpose of an international economic organisation as defined in the introductory text?

(A) To provide military aid and enforce global security protocols

(B) To promote economic development and global trade among a group of countries

(C) To act as a global government with legislative and executive powers

(D) To exclusively manage the foreign exchange reserves of member nations

Ans :

(B) To promote economic development and global trade among a group of countries

An international economic organisation is established by a group of nations with the specific goal of fostering economic progress and facilitating international trade. These bodies encourage development, provide support, finance projects, settle disputes, and facilitate agreements, with key examples being the WTO, IMF, and the World Bank, all aimed at enhancing global economic cooperation.

May/June 2021

2. Which three organisations are highlighted as the most important international economic organisations serving the globe?

(A) World Trade Organization (WTO), International Monetary Fund (IMF), and World Bank (WB)

(B) OECD, ASEAN, and SAARC

(C) G-7, G-20, and the Bank for International Settlements (BIS)

(D) United Nations (UN), International Labour Organization (ILO), and World Health Organization (WHO)

Ans :

(A) World Trade Organization (WTO), International Monetary Fund (IMF), and World Bank (WB)

The text explicitly identifies three crucial international economic organisations that serve the global economy. These are the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank (WB). They play pivotal roles in encouraging development, providing financial support, settling disputes, and facilitating agreements on a global scale.

Oct/Nov 2007

3. What is the stated mission of the International Monetary Fund (IMF) for its 190 member nations?

(A) To ensure long-term growth and prosperity by requiring member states to adopt specific, uniform political ideologies.

(B) To provide direct funding for private corporations in member countries, bypassing national government oversight.

(C) To ensure long-term growth and prosperity by promoting policies for financial stability and monetary cooperation.

(D) To act as the central bank for all member nations, managing their reserves and preparing to issue a single global currency.

Ans :

(C) To ensure long-term growth and prosperity by promoting policies for financial stability and monetary cooperation.

The IMF's primary mission is to secure enduring growth and prosperity for its member nations. It achieves this by advocating for and supporting economic policies that foster financial stability and monetary cooperation. These elements are considered essential for improving productivity, creating jobs, and enhancing the overall economic well-being of its members.

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May/June 2012

4. When and where was the framework for the International Monetary Fund (IMF) agreed upon?

(A) In Geneva, Switzerland, in January 1948, with 23 countries

(B) In Washington D.C., in December 1945, with 29 countries

(C) In London, United Kingdom, in October 1947, with 51 countries

(D) In Bretton Woods, New York, in July 1944, with 45 countries

Ans :

(D) In Bretton Woods, New York, in July 1944, with 45 countries

The foundational framework for the IMF was established at a conference in Bretton Woods, New York, in July 1944. During this meeting, delegates from 45 countries convened to agree upon a structure for post-war international economic cooperation. Subsequently, 29 countries initially signed the articles of agreement to formally create the organization.

Oct/Nov 2024

5. On which date did India officially become a member of the International Monetary Fund (IMF)?

(A) July 1, 1944

(B) January 1, 1948

(C) December 27, 1945

(D) October 30, 1947

Ans :

(C) December 27, 1945

Following the Bretton Woods conference and the formal establishment of the IMF, India officially joined the organization as a member. The specific date of India's membership is recorded as December 27, 1945. This made India one of the early members of the institution, contributing to its framework and objectives from the post-war era.

May/June 2005

6. What was the primary objective of the IMF's Fourteenth General Review of Quotas in 2010?

(A) To increase the borrowing capacity of all member nations uniformly, without regard to economic size or contribution.

(B) To realign quota shares to better reflect the role of dynamic emerging market and developing economies.

(C) To reduce the overall quota subscriptions to lessen the financial burden, particularly for the least developed countries.

(D) To dissolve the existing quota system and transition to a voluntary, donation-based funding model from wealthier nations.

Ans :

(B) To realign quota shares to better reflect the role of dynamic emerging market and developing economies.

The Fourteenth General Review of Quotas, concluded in 2010, was specifically aimed at modernizing the IMF's governance structure. Its main goal was to realign the quota shares of member countries to better reflect the shifting weights in the global economy, particularly by increasing the representation of underrepresented emerging market and developing countries (EMDCs).

NODIA

Oct/Nov 2018

7. Which of the following is identified as a core function of the IMF, involving the supervision of member countries' economic policies?

(A) Mobilizing external financing

(B) Dissemination of information and research

(C) Building capacity through technical assistance

(D) Surveillance over members' economic policies

Ans :

(D) Surveillance over members' economic policies

A key function of the IMF is its surveillance role. Member countries are required to adopt economic policies that align with the IMF's objectives. The IMF possesses the legal authority to supervise this compliance and is mandated to conduct regular reviews of the economic situations of nearly every member country to ensure stability and consistency.

May/June 2016

8. Under what circumstances does the IMF provide loans to member countries to help them implement corrective measures in an orderly manner?

(A) During a temporary balance of payment crisis

(B) During periods of high economic growth to

fund infrastructure
(C) For long-term industrial development projects
(D) To bail out insolvent private commercial banks

Ans :

(A) During a temporary balance of payment crisis
The IMF's function of financing temporary balance of payments needs is crucial. When a member country faces a temporary BoP crisis, the IMF extends loans to support the implementation of orderly corrective measures. This assistance helps prevent a disruptive correction of the external imbalance and also acts as a catalyst for mobilizing other external funding.

Oct/Nov 2022

9. In its efforts to combat poverty in low-income countries, with which major institution does the IMF collaborate closely?
(A) The World Trade Organization (WTO)
(B) The Bank for International Settlements (BIS)
(C) The World Bank
(D) The G-20 forum

Ans :

(C) The World Bank
To support poverty reduction efforts in low-income countries, the IMF provides concessional loans. In pursuit of this objective, the IMF works in close collaboration with the World Bank and other international economic institutions. This partnership is crucial for raising external finance and donor support for nations participating in debt-relief initiatives like HIPC and MDRI.

May/June 2010

10. Which two international debt-relief initiatives does the IMF participate in to support poor nations?
(A) The Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI)
(B) The Paris Club Initiative and the London Club Initiative
(C) The Millennium Development Goals (MDG) Fund and the Sustainable Development Goals (SDG) Fund
(D) The Brady Plan Initiative and the Baker Plan Initiative

Ans :

(A) The Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI)
The IMF actively participates in two significant international debt-relief programs to assist low-income countries. These are the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Through these initiatives, the IMF, in collaboration with other institutions, helps to alleviate the debt burdens of the world's most vulnerable nations.

Oct/Nov 2011

11. How does an IMF endorsement of a country's economic policies influence external financing?
(A) It legally obligates all other bilateral and multilateral lenders to provide matching funds at concessional rates.
(B) It has no formal impact on the decisions of other lenders, who conduct their own independent analyses.
(C) It automatically triggers a mandatory credit rating upgrade from agencies like S&P, Moody's, and Fitch.
(D) It acts as a key signal to investors, influencing market confidence and lending decisions.

Ans :

(D) It acts as a key signal to investors, influencing market confidence and lending decisions.
An IMF endorsement of a country's economic program serves as a critical signal to the global financial community. Before committing their own resources, bilateral and multilateral lenders, as well as private investors, often rely on this endorsement. The IMF's assessments and recommendations can significantly influence investor and market confidence regarding a country's economic prospects.

May/June 2025

12. What is the name of the international reserve asset established by the IMF in 1969 to augment international liquidity?
(A) Global Currency Unit (GCU)
(B) Special Drawing Rights (SDRs)
(C) International Reserve Dollar (IRD)
(D) Bretton Woods Unit (BWU)

Ans :

(B) Special Drawing Rights (SDRs)

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In 1969, the IMF created an international reserve asset to supplement the official reserves of its member countries and augment global liquidity. This asset is known as Special Drawing Rights (SDRs). SDRs are hard currency assets that can be converted into convertible currencies, playing a role in the international monetary system.

Oct/Nov 2006

13. Which statement accurately describes the IMF's role in capacity building for its member nations?
(A) It only provides financial aid for specific projects without offering any follow-up technical support.
(B) It focuses exclusively on publishing academic research and does not engage in direct member country training.
(C) It offers technical assistance and training to improve economic policy-making and management.
(D) It outsources all technical assistance and training functions to private, third-party consulting firms.

Ans :

(C) It offers technical assistance and training to improve economic policy-making and management.
The IMF plays a significant role in building capacity within its member nations. It provides targeted technical assistance and training programs designed to help countries develop effective economic policies and enhance their economic management skills. This support helps reduce policy failures, increase resilience to shocks, and aids in the design and execution of economic programs.

May/June 2009

14. Who serves as the ex-officio Governor on the Board of Governors of the IMF, representing India?
(A) The Governor of the Reserve Bank of India
(B) The Prime Minister of India
(C) The Commerce Minister of India
(D) The Finance Minister of India

Ans :

(D) The Finance Minister of India
As a founding member of the IMF, India holds a position on its Board of Governors. The role of ex-officio Governor for India on this board is held by the country's Finance Minister. This position is responsible for representing India's interests and perspectives within the highest decision-making body of the International Monetary Fund.

Oct/Nov 2019

15. During the 2008 global financial crisis, what was the approximate value of the SDR allocation India received from the IMF to combat the economic slowdown?
(A) US$ 4.5 billion
(B) US$ 1 billion
(C) US$ 10 billion
(D) US$ 25 billion

Ans :

(A) US$ 4.5 billion
In response to the 2008 global financial crisis, the IMF made a general SDR allocation of approximately $250 billion to provide liquidity to the global system. As part of this measure, India received an allocation of around US$ 4.5 billion from the IMF's SDRs to augment its foreign exchange reserves and help combat the economic slowdown.

May/June 2017

16. According to the provided text, what is India's current IMF quota and its rank among the largest quota-holding members?
(A) SDR 10,112 million, ranking 8th
(B) SDR 13,114 million, ranking 6th
(C) SDR 15,540 million, ranking 5th
(D) SDR 12,313 million, ranking 7th

Ans :

(B) SDR 13,114 million, ranking 6th
The text states that India's current quota in the IMF is SDR 13,114 million. This places India among the top ten largest quota-holding nations in the fund. Specifically, this quota makes India the 6th-largest quota-holding member, giving it a 2.76% stake in the organization's total quotas.

Oct/Nov 2023

17. Which of the following statements about Special Drawing Rights (SDR) is incorrect?
(A) The SDR serves as the unit of account of the IMF.
(B) The SDR is a currency issued by the IMF.
(C) The SDR was initially defined as equivalent to 0.888671 grams of fine gold.
(D) The value of the SDR is determined by a basket of currencies.

NODIA

Ans :

(B) The SDR is a currency issued by the IMF.
The text explicitly states that the SDR is neither a currency nor a direct claim on the IMF. Instead, it is a potential claim on the freely usable currencies of IMF members. It functions as a supplementary international reserve asset and the IMF's unit of account, but it is not a currency in itself.

May/June 2006

18. To be included in the SDR basket, a currency must meet the export criterion. What does this criterion entail?
(A) The issuer is an IMF member and one of the world's top five exporters.
(B) The currency's issuer must be ranked among the top ten world exporters for three consecutive years.
(C) The currency must be fully convertible with no capital controls, as certified by the Bank for International Settlements.
(D) The issuer must have maintained a consistent trade surplus for a period of at least five consecutive years.

Ans :

(A) The issuer is an IMF member and one of the world's top five exporters.
For a currency to be considered for inclusion in the SDR valuation basket, it must satisfy two criteria. The export criterion requires that the currency's issuer is an IMF member (or a monetary union including IMF members) and is also ranked as one of the top 5 exporters in the world.

Oct/Nov 2013

19. Which currency was added to the SDR basket effective October 1, 2016?
(A) Swiss Franc
(B) Canadian Dollar
(C) Chinese Renminbi
(D) Australian Dollar

Ans :

(C) Chinese Renminbi
Following a review that concluded in November 2015, the IMF's Executive Board determined that the Chinese Renminbi (RMB) met the criteria for inclusion in the SDR basket. Consequently, the RMB officially joined the basket of currencies, alongside the US dollar, euro, Japanese yen, and British pound sterling, effective from October 1, 2016.

May/June 2013

20. What was the original purpose for the formation of the World Bank following the Bretton Woods Conference in 1944?
(A) To alleviate poverty in newly independent developing countries in Africa and Asia.
(B) To regulate international trade and set global tariff levels for manufactured goods.
(C) To stabilize global exchange rates by creating a single world reference currency.
(D) To finance the post-World War II reconstruction of Western Europe.

Ans :

(D) To finance the post-World War II reconstruction of Western Europe.
The World Bank, which emerged from the 1944 Bretton Woods Conference, had an initial historic task. Its formation was primarily aimed at assisting in the reconstruction and rebuilding of Western European economies that had been devastated by World War II. Its focus shifted to developing countries only after this initial mission was accomplished.

Oct/Nov 2009

21. Which statement best describes the entities that the World Bank directly funds?
(A) It directly funds only private sector corporations and non-governmental organizations (NGOs).
(B) It funds any entity, public or private, as long as the project meets its development criteria, without government involvement.
(C) It provides funding exclusively to the central banks of member nations for monetary policy purposes.
(D) It provides funding to sovereign governments or for projects they explicitly support.

Ans :

(D) It provides funding to sovereign governments or for projects they explicitly support.
The World Bank's lending model has a specific focus. It offers financial solutions and policy assistance primarily to national governments. The text clarifies that only sovereign governments and projects that have the backing and support of these sovereign governments are eligible to receive direct funding from the World Bank.

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May/June 2023

22. Match the Indian government scheme with the World Bank's area of activity.

List-I (Scheme)

P. Swachh Bharat Mission

Q. PM Krishi Sinchayee Yojana (PMKSY)

R. Deen Dayal Antyodaya Yojana-NRLM

S. Sagarmala Project

List-II (WB Activity Area)

1. Agriculture and Rural Development
2. Infrastructure
3. Human Development
4. Poverty Alleviation

(A) P-3, Q-1, R-4, S-2

(B) P-4, Q-3, R-2, S-1

(C) P-3, Q-2, R-1, S-4

(D) P-1, Q-4, R-3, S-2

Ans :

(A) P-3, Q-1, R-4, S-2

The World Bank's activities in India support various government schemes. The Swachh Bharat Mission falls under human development. PM Krishi Sinchayee Yojana relates to agriculture and rural development. The Deen Dayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM) is a poverty alleviation program, and the Sagarmala project focuses on infrastructure, specifically port modernization.

Oct/Nov 2025

23. Which arm of the World Bank concentrates on providing loans to middle-income and creditworthy poor countries?

(A) International Development Association (IDA)

(B) International Finance Corporation (IFC)

(C) International Bank for Reconstruction and Development (IBRD)

(D) Multilateral Investment Guarantee Agency (MIGA)

Ans :

(C) International Bank for Reconstruction and Development (IBRD)

The World Bank Group has different agencies for different purposes. The International Bank for Reconstruction and Development (IBRD) is the arm that specifically focuses on serving middle-income and creditworthy poor countries. It provides them with low-interest loans, grants, and policy advice to support their development and path towards increased prosperity.

May/June 2008

24. Which of the following is NOT one of the five institutions that comprise the World Bank Group (WBG)?

(A) International Finance Corporation (IFC)

(B) International Centre for Settlement of Investment Disputes (ICSID)

(C) Multilateral Investment Guarantee Agency (MIGA)

(D) International Trade Organization (ITO)

Ans :

(D) International Trade Organization (ITO)

The World Bank Group is a collection of 5 distinct international institutions. These are the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). The International Trade Organization was a proposed but failed institution.

Oct/Nov 2015

25. India is a founder member of all the following World Bank Group institutions EXCEPT:

(A) International Centre for Settlement of Investment Disputes (ICSID)

(B) International Bank for Reconstruction and Development (IBRD)

(C) International Development Association (IDA)

(D) International Finance Corporation (IFC)

Ans :

(A) International Centre for Settlement of Investment Disputes (ICSID)

India has been a key participant in the World Bank Group from its early days. The text explicitly states that India is one of the founder members of the IBRD, IDA, and IFC. However, it is also mentioned later in the chapter that India is a member of four of the 5 WBG components, with the exception of ICSID.

NODIA

May/June 2019

26. What is the primary function of the International Centre for Settlement of Investment Disputes (ICSID)?

(A) To provide concessional loan and equity financing for private-sector infrastructure initiatives.

(B) To mediate and resolve legal investment disputes between international investors and host states.

(C) To offer political risk insurance against non-commercial events like expropriation to private investors.

(D) To provide long-term, interest-free loans and grants to the world's poorest developing countries.

Ans :

(B) To mediate and resolve legal investment disputes between international investors and host states.

The International Centre for Settlement of Investment Disputes (ICSID), founded in 1966, has a very specific mandate within the World Bank Group. Its main purpose is to serve as a forum for the mediation and resolution of legal disputes that arise between international investors and the host states of their investments, thereby alleviating non-commercial risks.

Oct/Nov 2017

27. Which World Bank Group agency is dedicated to encouraging foreign direct investment in developing countries by protecting investors against political and non-commercial risks?

(A) IFC

(B) IDA

(C) IBRD

(D) MIGA

Ans :

(D) MIGA

The Multilateral Investment Guarantee Agency (MIGA) has the specific role of promoting foreign direct investment (FDI) into developing nations. It achieves this by providing guarantees and insurance to investors, protecting them against non-commercial and political risks such as expropriation, war, and civil disturbance, thus boosting investor confidence and stimulating economic growth.

May/June 2011

28. An international conglomerate is planning a large-scale private sector energy project in a developing nation. It requires significant loan and equity financing. Which World Bank Group institution is best suited to be the multilateral source for this financing?

(A) International Finance Corporation (IFC)

(B) International Development Association (IDA)

(C) Multilateral Investment Guarantee Agency (MIGA)

(D) International Bank for Reconstruction and Development (IBRD)

Ans :

(A) International Finance Corporation (IFC)

The International Finance Corporation (IFC) is the arm of the World Bank Group focused on the private sector. It is described as the world's largest multilateral source of loan and equity financing for private-sector initiatives in the developing world. Therefore, it is the most appropriate institution for financing a large-scale private energy project.

Oct/Nov 2020

29. What are the typical repayment and grace periods for loans provided by the International Development Association (IDA)?

(A) Repayments over 5-10 years with a 1-year grace period

(B) Repayments over 10-15 years with a 2-year grace period

(C) Repayments over 25-40 years with a 5 to 10-year grace period

(D) Repayments over 50 years with a 20-year grace period

Ans :

(C) Repayments over 25-40 years with a 5 to 10-year grace period

The International Development Association (IDA) provides long-term, interest-free loans to the world's poorest countries. These highly concessional terms are designed to be manageable for low-income nations. The repayment periods are spread out over 25 to 40 years, and they include a grace period of 5 to 10 years before repayments must begin.

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May/June 2018

30. How does the International Development Association (IDA) primarily source its funding?
(A) Primarily from contributions made by the governments of its wealthier member nations.
(B) Exclusively by borrowing from international bond markets at competitive interest rates.
(C) Through mandatory quota subscriptions calculated for all member countries based on their GDP.
(D) From profits and interest income generated by the lending activities of the International Monetary Fund.

Ans :

(A) Primarily from contributions made by the governments of its wealthier member nations.
Unlike the IBRD, which raises most of its funds from financial markets, the IDA's funding model is different. It is primarily supported by financial contributions from the governments of its wealthier member countries. Additional funds are sourced from IBRD and IFC revenue, as well as repayments of previous IDA loans from borrower nations.

Oct/Nov 2012

31. What is the primary mission of the International Bank of Reconstruction and Development (IBRD)?
(A) To provide short-term bailout funds and emergency liquidity for countries facing balance of payment crises.
(B) To insure foreign direct investments against political and non-commercial risks in all member countries.
(C) To regulate the global currency exchange system and promote international monetary stability and cooperation.
(D) To provide financial products and policy advice to middle-income countries to reduce poverty.

Ans :

(D) To provide financial products and policy advice to middle-income countries to reduce poverty.
The IBRD, as the world's largest development bank, has a primary mission to help middle-income and creditworthy low-income countries on their path to prosperity. It does this by providing loans, guarantees, risk management solutions, and, crucially, financial and economic policy guidance to help them reduce poverty and achieve sustainable development goals.

May/June 2015

32. India is a member of four of the five World Bank Group institutions. Which institution is it NOT a member of?
(A) IBRD
(B) ICSID
(C) IDA
(D) IFC

Ans :

(B) ICSID
The text explicitly states that, "Except for ICSID, India is a member of four of the 5 World Bank Group components." This means India is a member of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA), but not the ICSID.

Oct/Nov 2008

33. When did the World Bank's assistance to India begin, and for what project?
(A) In 1957, for the establishment of a resident mission
(B) In 1960, for a rural development initiative
(C) In 1948, for the Agricultural Machinery Project
(D) In 1970, for an infrastructure development project

Ans :

(C) In 1948, for the Agricultural Machinery Project
The partnership between India and the World Bank has a long history. The Bank's financial assistance to India commenced in 1948, shortly after India's independence. The very first project to receive funding was the Agricultural Machinery Project, marking the beginning of a decades-long development cooperation between the two.

May/June 2024

34. Based on the "IMF and WB Group: Differences" table, analyze the following statements.
Statement I: The IMF is a single institution,

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while the World Bank Group comprises five institutions.
Statement II: The IMF's primary source of funds is borrowing from the international bond market.
Statement III: The World Bank Group's primary role is to oversee the international monetary system.
Which of the above statements is/are correct?
(A) Only I
(B) Only I and II
(C) Only II and III
(D) All I, II, and III

Ans :

(A) Only I
According to the comparison table, Statement I is correct as the IMF is a single institution versus the WBG's 5. Statement II is incorrect; the IMF draws resources from member quotas, while the WBG (IBRD/IFC) borrows from bond markets. Statement III is also incorrect; overseeing the monetary system is the IMF's role, not the WBG's.

Oct/Nov 2010

35. According to the comparison table, how do the financing methods of the IMF and the World Bank Group differ?
(A) IMF provides short- to medium-term credits for BoP bailouts, while WBG focuses on long-term development financing.
(B) IMF provides long-term project financing, while WBG provides short-term BoP support.
(C) Both institutions draw their financial resources principally from the quota subscriptions of member countries.
(D) Both institutions acquire most of their financial resources by borrowing from the international bond market.

Ans :

(A) IMF provides short- to medium-term credits for BoP bailouts, while WBG focuses on long-term development financing.
The table clearly distinguishes their financing roles. The IMF "Assists with BoP bailout funds, by providing short- to medium-term credits." In contrast, the World Bank Group "Assists developing countries through long-term financing of development projects and programmes." This highlights the IMF's crisis-management role versus the WBG's long-term development focus.

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May/June 2020

36. What was the predecessor to the World Trade Organization (WTO), which set the rules for international trade from 1948 to 1994?
(A) The International Trade Organization (ITO)
(B) The General Agreement on Tariffs and Trade (GATT)
(C) The Bretton Woods Agreement
(D) The United Nations Conference on Trade and Development (UNCTAD)

Ans :

(B) The General Agreement on Tariffs and Trade (GATT)
The text clearly identifies the General Agreement on Tariffs and Trade (GATT) as the precursor to the WTO. GATT was signed in 1947 and came into effect in 1948. For nearly five decades, from 1948 to 1994, it provided the framework and rules governing a significant portion of international trade.

Oct/Nov 2005

37. India's membership in the international trading system is notable. When did India become a founding member of GATT?
(A) January 1, 1995
(B) January 1, 1948
(C) December 27, 1945
(D) October 30, 1947

Ans :

(D) October 30, 1947
India was a key participant in the establishment of the post-war global trading system. The General Agreement on Tariffs and Trade (GATT) was signed by 23 nations, including India, on October 30, 1947, in Geneva. This made India a founding member of the agreement that would govern world trade for decades.

May/June 2007

38. The World Trade Organization (WTO) was formed on January 1, 1995, as a result of which round of trade negotiations?
(A) The Uruguay Round
(B) The Kennedy Round
(C) The Tokyo Round
(D) The Doha Round

Ans :

(A) The Uruguay Round

The formation of the WTO was the culmination of a lengthy cycle of trade negotiations. The text specifies that the WTO was conceived during the 8th GATT cycle, which took place from 1986 to 1994. This cycle is popularly known as the Uruguay Round, and its conclusion led to the establishment of the WTO.

Oct/Nov 2021

39. What is the top decision-making body of the WTO, and how often does it typically meet?
(A) The General Council, meets monthly
(B) The Dispute Settlement Body, meets as needed
(C) The Ministerial Conference, meets roughly every two years
(D) The Trade Policy Review Body, meets annually

Ans :

(C) The Ministerial Conference, meets roughly every two years
The highest authority within the World Trade Organization is the Ministerial Conference. This body consists of the trade or commerce ministers from all member countries. As stated in the text, the Ministerial Conference convenes approximately every 2 years to make decisions on all matters under any of the multilateral trade agreements.

May/June 2022

40. Which of the following is NOT listed as one of the six broader functions of the WTO?
(A) Providing a forum for trade negotiations
(B) Handling trade disputes between member countries
(C) Monitoring national trade policies
(D) Providing emergency loans for balance of payments crises

Ans :

(D) Providing emergency loans for balance of payments crises
The text outlines 6 broad functions of the WTO: administering trade agreements, being a forum for negotiations, handling disputes, monitoring trade policies, providing technical assistance, and cooperating with other organizations. Providing emergency loans for balance of payments crises is a primary function of the International Monetary Fund (IMF), not the WTO.

Oct/Nov 2016

41. India has consistently advocated for a specific type of treatment for emerging nations within the WTO framework. What is this treatment called?
(A) Special and differential treatment/rules
(B) Most-Favoured-Nation (MFN) treatment
(C) National Treatment
(D) Preferential tariff treatment

Ans :

(A) Special and differential treatment/rules
As a developing country, India has played an important role in WTO proceedings by voicing its concerns and those of the developing world. The text highlights that India has consistently stressed the need for "special and differential treatment/ rules" to facilitate the greater integration of emerging nations into the global economic system.

May/June 2014

42. Which of the following is NOT one of the WTO agreements mentioned as having several implications for the Indian economy?
(A) Trade-Related Intellectual Property Rights (TRIPS)
(B) Multilateral Investment Guarantee Agreement (MIGA)
(C) Agreement on Agriculture (AOA)
(D) Trade-Related Investment Measures (TRIMS)

Ans :

(B) Multilateral Investment Guarantee Agreement (MIGA)
The text lists several important WTO accords that impact the Indian economy. These include TRIMS, TRIPS, AOA, the Agreement on Sanitary and Phytosanitary Measures (SPS), and the Multi-Fibre Agreement (MFA). The Multilateral Investment Guarantee Agreement (MIGA) is an agency of the World Bank Group, not a WTO agreement.

Oct/Nov 2014

43. According to the "Ministerial Conference of WTO" table, where was the fourth Ministerial Conference held in November 2001, where India emerged as a key proponent for the developing world?
(A) Singapore
(B) Seattle
(C) Doha
(D) Cancun

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Ans :

(C) Doha
The provided table lists the venues and dates of the WTO Ministerial Conferences. The 4th conference is listed as taking place from 9 - 13 November 2001 in Doha. The accompanying text confirms that at this 2001 session in Doha, India was the most outspoken proponent for the developing world, leading to the Doha Development Agenda.

May/June 2021

44. The 12th WTO Ministerial Conference in June 2022 resulted in a historic agreement on which of the following issues after a nine-year hiatus?
(A) Agricultural subsidies
(B) Intellectual property rights for software
(C) E-commerce taxation framework
(D) Fisheries subsidies

Ans :

(D) Fisheries subsidies
A major outcome of the 12th WTO Ministerial Conference, held in June 2022, was a landmark agreement on fisheries subsidies. The text explicitly mentions that "After a nine-year hiatus, WTO members struck an agreement on fisheries subsidies." This accord addressed critical issues like overfishing and illegal, unreported, and unregulated (IUU) fishing.

Oct/Nov 2007

45. Based on the paragraph describing the 12th WTO Ministerial Conference, what did India agree to in exchange for the right to provide subsidies to its fishermen?
(A) A one-and-a-half-year extension of the customs tariff moratorium on electronic goods.
(B) A permanent ban on agricultural subsidies.
(C) Immediate implementation of a global digital services tax.
(D) A reduction in its representation at the WTO General Council.

Ans :

(A) A one-and-a-half-year extension of the customs tariff moratorium on electronic goods.
The text describes a key trade-off made during the 12th Ministerial Conference. It states, "India has the right to provide subsidies to its fisherman. In exchange, India has agreed to a one-and-a-half-year extension of the customs tariff moratorium, on electronic goods." This was a significant part of the overall package of agreements.

May/June 2012

46. What is a cornerstone principle for regional economic cooperation mentioned in the text?
(A) Cooperation should be based on the eventual adoption of a single, shared currency among all members.
(B) Cooperation should be based on deliberation, consultation, and consensus.
(C) Cooperation should be mandated and enforced by a supranational authority.
(D) Cooperation should be limited to countries with identical political systems.

Ans :

(B) Cooperation should be based on deliberation, consultation, and consensus.
The text outlines several important guidelines that form the cornerstone of regional economic cooperation. Among these is the principle that cooperation on all economic issues should be founded on a process of deliberation, consultation, and consensus among the participating nations, ensuring mutual respect and shared objectives.

Oct/Nov 2024

47. The European Union (EU) was established in 1993 following the signing of which treaty?
(A) Treaty of Rome
(B) Maastricht Treaty
(C) Lisbon Treaty
(D) Schengen Agreement

Ans :

(B) Maastricht Treaty
The text provides a brief history of the European Union, stating that its modern form was established in 1993. This establishment was a direct result of the signing of the Maastricht Treaty, which transformed the European Economic Community into a more integrated economic and political bloc known as the European Union.

May/June 2005

48. What is the Eurozone, and which institution is in charge of its monetary policy?
(A) An economic union of 19 EU members using the euro; the European Central Bank
(B) A political union of all 28 EU members

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CHAPTER 10

Climate Change, Sustainable Development Goals (SDGs)

May/June 2016

1. According to projections for 2021, by what percentage were global energy-related CO_2 emissions expected to grow as demand for fossil fuels rebounded?
(A) 1.5%
(B) 4.0%
(C) 14.0%
(D) 45.0%

Ans :

(B) 4.0%
Following a temporary reduction in 2020 due to the pandemic, global energy-related CO_2 emissions were projected to rebound and grow by 4.0% in 2021. This resurgence was attributed to the increasing demand for coal, oil, and gas as economic activities resumed globally, highlighting the persistent challenge of decoupling economic growth from carbon emissions.

Oct/Nov 2025

2. Based on national commitments prior to recent updates, what is the projected increase in global emissions over the current decade?
(A) An increase of almost 14%
(B) A decrease of 45%
(C) A decrease of 14%
(D) An increase of 4.0%

Ans :

(A) An increase of almost 14%
Based on the national commitments submitted by countries, global emissions are set to increase by almost 14% over the current decade. This trajectory is in stark contrast to the scientific recommendation of a 45% reduction to limit global warming and signals a significant risk of a climate catastrophe without more ambitious and immediate collective action.

May/June 2007

3. As of 31 December 2021, how many countries had reported the adoption of national disaster risk reduction strategies?
(A) 55
(B) 193
(C) 123
(D) 192

Ans :

(C) 123
By the end of 2021, a total of 123 countries had reported the adoption of national disaster risk reduction strategies. This represents a significant increase from the 55 countries that had such strategies in place in 2015, indicating a growing global recognition of the need for systemic and multi-hazard approaches to manage disaster risks, further accelerated by the COVID-19 crisis.

Oct/Nov 2018

4. To limit global warming to 1.5°C, what reduction in global emissions by 2030, compared to 2010 levels, do scientists recommend?
(A) 14%
(B) 30%
(C) 70%
(D) 45%

Ans :

(D) 45%
Scientists have recommended that to limit global warming to 1.5°C, global emissions must be cut by 45% by the year 2030, using 2010 levels as the baseline. This ambitious target underscores the urgency and scale of transformation required across all sectors of the global economy to avoid the most severe impacts of climate change.

May/June 2023

5. What has been the primary cause of climate change since the 1800s?
(A) Natural variations in temperature and

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Ans :

(C) G-20
The description matches the G-20 (Group of Twenty) perfectly. The text states the G-20 was formed in 1999 to bring together developed and developing countries to address global economic and financial issues. It is described as comprising the world's greatest advanced and emerging nations, representing 85% of global GDP and over 75% of global trade.

May/June 2025

54. The North American Free Trade Agreement (NAFTA) was a regional trade bloc comprised of which three countries?
(A) United States, Mexico, and Brazil
(B) Canada, United States, and United Kingdom
(C) United States, Colombia, and Panama
(D) Canada, United States, and Mexico

Ans :

(D) Canada, United States, and Mexico
The text defines NAFTA as a regional trade bloc that was established in 1994. It explicitly names the member countries, stating that it "is comprised of Canada, the United States, and Mexico." This bloc was one of the world's largest in terms of the combined GDP of its members.

Oct/Nov 2006

55. An analyst is studying a free trade agreement (FTA) that includes the 10 ASEAN member countries plus five of their existing FTA partners: Australia, China, Japan, New Zealand, and the Republic of Korea. The agreement aims to strengthen economic linkages and enhance trade. Based on the provided text, which agreement is being studied?
(A) RCEP
(B) APEC
(C) IORARC
(D) SAFTA

Ans :

(A) RCEP
The description provided in the question directly corresponds to the definition of the Regional Comprehensive Economic Partnership (RCEP) in the text. The text states that RCEP is an FTA among the 10 ASEAN member countries and their 5 FTA partners, which are listed as Australia, China, Japan, New Zealand, and the Republic of Korea.

May/June 2009

56. The regional organisation BIMSTEC includes seven member countries from two regions. What is the composition of its membership?
(A) Four from South Asia and three from Southeast Asia
(B) Five from South Asia and two from Southeast Asia
(C) Two from South Asia and five from Southeast Asia
(D) Three from South Asia and four from Southeast Asia

Ans :

(B) Five from South Asia and two from Southeast Asia
BIMSTEC is a multilateral organization for the Bay of Bengal region. The text specifies its composition: "It has a total of 7 member countries—5 from South Asia, including Bangladesh, Bhutan, India, Nepal, and Sri Lanka, and 2 from Southeast Asia, including Myanmar and Thailand." This unique composition bridges the two regions.

Oct/Nov 2019

57. The organisation BIMSTEC was originally founded in June 1997 with four members. What was its initial name?
(A) BBIN
(B) SAARC-4
(C) BISTEC
(D) MGC

Ans :

(C) BISTEC
The organization's name evolved as its membership grew. The text states that it "was founded as BISTEC, in June 1997 and with the adoption of the Bangkok Declaration, with Bangladesh, India, Sri Lanka and Thailand as members." It later became BIMSTEC with the inclusion of Myanmar.

May/June 2017

58. Which of the following is listed as a recent major international economic concern affecting global economic dimensions?
(A) Stagflation and aggressive monetary tightening

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focused on foreign policy; coordination by the European Parliament.

(C) A free trade area including all European and Asian nations; its rules are administered by the World Bank.

(D) A customs union of the G-7 nations establishing common external tariffs; managed by the Bank for International Settlements.

Ans :

(A) An economic union of 19 EU members using the euro; the European Central Bank

The Eurozone is defined as an economic union founded in 1999, comprising 19 of the 28 EU member states that have adopted the euro as their single currency. The text further specifies that the European Central Bank (ECB), headquartered in Frankfurt, Germany, is the central bank responsible for the Eurozone's monetary policy.

Oct/Nov 2018

49. Which of the following countries is NOT a member of the South Asian Association for Regional Cooperation (SAARC)?

(A) Afghanistan
(B) Maldives
(C) Myanmar
(D) Bhutan

Ans :

(C) Myanmar

SAARC is a regional group of South Asian nations. The text lists its 8 members as India, the Maldives, Pakistan, Bangladesh, Sri Lanka, Bhutan, Nepal, and Afghanistan. Myanmar is a country in Southeast Asia and is a member of ASEAN and BIMSTEC, but not of SAARC.

May/June 2016

50. When was the South Asian Free Trade Area (SAFTA) established to encourage free trade among SAARC member countries?

(A) 2006
(B) 1985
(C) 1993
(D) 1999

Ans :

(A) 2006

To deepen economic integration within the South Asian region, the members of SAARC took a significant step to promote commerce. The text states that the South Asian Free Trade Area (SAFTA) was established on January 1, 2006, with the specific objective of encouraging and facilitating free trade among its member nations.

Oct/Nov 2022

51. Which of the following is a founding member of the Organization of Petroleum Exporting Countries (OPEC)?

(A) Libya
(B) United Arab Emirates
(C) Nigeria
(D) Venezuela

Ans :

(D) Venezuela

OPEC was founded in September 1960 in Baghdad by 5 countries. The text identifies these 5 founding members as the Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. Other countries like Libya, the UAE, and Nigeria joined the organization later and are not considered founder members.

May/June 2010

52. Which nation terminated its membership in OPEC on January 1, 2019?

(A) Ecuador
(B) Qatar
(C) Gabon
(D) Indonesia

Ans :

(B) Qatar

The composition of OPEC has changed over the years, with countries joining and leaving the organization. The text specifically notes a recent departure, stating that "Qatar terminated its membership on 1 January 2019." This reduced the number of member countries in the petroleum-exporting group.

Oct/Nov 2011

53. A group of the world's largest advanced and emerging nations, including India, convenes to address a global financial stability crisis. This group collectively represents 85% of global GDP and over 75% of global trade. Which international grouping is this?

(A) G-7
(B) OECD
(C) G-20
(D) APEC

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Ans :

(B) Handling trade disputes
This scenario represents a classic trade dispute where one member is allegedly not adhering to its WTO commitments. The WTO's function of "Handling trade disputes" and its associated dispute settlement mechanism is the formal process through which a member country like India can challenge another member's practices and seek a resolution.

Oct/Nov 2009

63. Consider the following statements about the World Bank Group:
1. The IBRD focuses on middle-income countries, while the IDA focuses on the poorest countries.
2. The IFC is the world's largest multilateral source of debt and equity for public-sector projects.
3. MIGA provides insurance to investors against commercial risks like bankruptcy.

Which of the statements given above is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 only
Statement 1 is correct; the text distinguishes the roles of IBRD and IDA this way. Statement 2 is incorrect; IFC focuses on private-sector initiatives, not public-sector. Statement 3 is incorrect; MIGA protects against non-commercial and political risks, not commercial risks like bankruptcy. Therefore, only the first statement is correct.

May/June 2023

64. Match the regional economic organisation with its headquarters.
List-I (Organisation)
P. SAARC
Q. ASEAN
R. OPEC
S. OECD
List-II (Headquarters)
1. Jakarta
2. Vienna
3. Paris
4. Kathmandu

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-1, R-4, S-2

Ans :

(A) P-4, Q-1, R-2, S-3
The text provides the locations for these organisations. SAARC is based in Kathmandu, Nepal. ASEAN is a regional bloc based in Jakarta, Indonesia. OPEC, the oil exporters' group, has its headquarters in Vienna, Austria. The OECD, an organisation of mainly developed economies, is headquartered in Paris, France.

Oct/Nov 2025

65. The text states, "India's current IMF quota is SDR 13,114 million, placing it among the top ten largest quota holding nations and giving it a 2.76% stake. As a result, it is the IMF's 6th largest quota holding member. However, India has 132,603 votes with a 2.63% voting share." What can be inferred from this data?
(A) India's voting share is exactly proportional to its quota stake.
(B) India's voting share (2.63%) is slightly less than its quota stake (2.76%).
(C) India holds the largest voting share in the IMF.
(D) A country's quota and votes are unrelated concepts in the IMF.

Ans :

(B) India's voting share (2.63%) is slightly less than its quota stake (2.76%).
The provided data shows India's quota stake is 2.76% and its voting share is 2.63%. A direct comparison of these two figures ($2.63 < 2.76$) leads to the inference that India's percentage of total votes is slightly lower than its percentage of total quotas. This reflects the IMF's voting structure, which includes basic votes for all members.

May/June 2008

66. Which of the following statements about the G-20 is incorrect?
(A) It was formed in 1999 to address issues concerning the global economy.
(B) Its membership comprises only the world's most advanced nations.
(C) Its members represent more than 75% of global trade.

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(D) India is a member of the G-20.

Ans :

(B) Its membership comprises only the world's most advanced nations.
The text explicitly states that the G-20 was formed to bring together governments from "developed and developing countries." It is described as being made up of the "world's greatest advanced and emerging nations." Therefore, the statement that its membership comprises only advanced nations is incorrect, as its key feature is the inclusion of major emerging economies.

Oct/Nov 2015

67. A European nation, which is a member of the EU and one of the world's top five exporters, wishes for its national currency to be included in the SDR basket. It is already widely traded in principal exchange markets. Does this currency meet the necessary criteria?
(A) No, because the country is part of the EU.
(B) Yes, it meets both the export and freely usable criteria.
(C) No, it only meets the export criterion but not the freely usable criterion.
(D) No, it only meets the freely usable criterion but not the export criterion.

Ans :

(B) Yes, it meets both the export and freely usable criteria.
The currency meets the export criterion because its issuer is an IMF member (as an EU country) and is a top-5 exporter. It also meets the freely usable criterion as it is widely used and traded. The scenario is designed to test the application of both criteria, which are clearly satisfied based on the text's definitions.

May/June 2019

68. Consider the following statements regarding India's engagement with international economic organisations:
1. India is a founding member of GATT, IMF, and IBRD.
2. India is not a member of the Regional Comprehensive Economic Partnership (RCEP).
3. The IFC's single-largest country exposure is to India.

Which of the statements given above are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(D) 1, 2 and 3
Statement 1 is correct; the text confirms India is a founding member of GATT (1947), IMF (1945), and IBRD/WB. Statement 2 is correct; the text lists RCEP members as ASEAN+5, not including India. Statement 3 is also correct; the text explicitly mentions "IFC's single-largest country exposure is to India." All three statements are factually accurate.

Oct/Nov 2017

69. Which of the following pairs is incorrectly matched?
(A) Bretton Woods Conference: Formation of IMF and World Bank
(B) Uruguay Round: Formation of WTO
(C) Bangkok Declaration: Formation of SAARC
(D) Maastricht Treaty: Establishment of European Union

Ans :

(C) Bangkok Declaration: Formation of SAARC
The Bangkok Declaration is associated with the formation of BISTEC (which became BIMSTEC). SAARC was founded in 1985 and is headquartered in Kathmandu. The other pairs are correctly matched: The Bretton Woods conference led to the IMF and World Bank, the Uruguay Round led to the WTO, and the Maastricht Treaty established the EU.

May/June 2011

70. Arrange the following events in chronological order of their occurrence:
1. Establishment of the South Asian Free Trade Area (SAFTA)
2. Formation of the World Trade Organization (WTO)
3. Inclusion of the Chinese Renminbi in the SDR basket
4. Foundation of the European Union (EU)

(A) 4, 2, 1, 3
(B) 2, 4, 3, 1
(C) 4, 1, 2, 3
(D) 2, 1, 4, 3

Ans :

(A) 4, 2, 1, 3

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Based on the dates provided in the text: The EU was established in 1993 (4). The WTO was formed on January 1, 1995 (2). SAFTA was established on January 1, 2006 (1). The Chinese Renminbi was included in the SDR basket effective October 1, 2016 (3). The correct chronological sequence is 4, 2, 1, 3.

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Oct/Nov 2006

10. Which of the following correctly pairs the SDG number with its corresponding goal?
(A) SDG 13: Climate Action
(B) SDG 1: Zero Hunger
(C) SDG 7: Clean Water and Sanitation
(D) SDG 16: Gender Equality

Ans :

(A) SDG 13: Climate Action
The correct pairing is SDG 13 with Climate Action. The other options are incorrectly matched. SDG 1 is No Poverty, SDG 7 is Affordable and Clean Energy, and SDG 16 is Peace, Justice and Strong Institutions. Zero Hunger is SDG 2, Clean Water and Sanitation is SDG 6, and Gender Equality is SDG 5.

May/June 2021

11. Besides financing, what were the other major challenges identified for nations in implementing the Sustainable Development Goals?
(A) Technological deficits and lack of political will
(B) Cultural barriers and geopolitical conflicts
(C) Population growth and urbanization pressures
(D) Enlisting stakeholder engagement and developing an administrative framework

Ans :

(D) Enlisting stakeholder engagement and developing an administrative framework
In addition to the significant challenge of financing the implementation process, nations faced two other major hurdles. These were enlisting the active engagement of all relevant stakeholders (including private sector and civil society) and developing a robust administrative framework to effectively monitor progress and ensure accountability towards achieving the set objectives of the SDGs.

Oct/Nov 2010

12. In addition to its foundational aims, which set of new challenges has the United Nations (UN) added to its agenda?
(A) Space exploration, artificial intelligence, and cyber warfare
(B) AIDS, big data, and climate change
(C) Global tourism standards and international sports regulation
(D) Maritime law, international aviation, and postal services

Ans :

(B) AIDS, big data, and climate change
While the UN's initial aims focused on peace, human rights, and international justice, its agenda has evolved to address modern global challenges. It has added complex issues like the HIV/AIDS pandemic, the implications of big data on society and privacy, and the overarching threat of climate change to its mandate of fostering economic and social growth.

May/June 2005

13. According to the NITI Aayog's SDG India Index, India's overall SDG score increased from 60 in 2019 to 66 in 2021. This improvement was primarily attributed to progress in which two areas?
(A) 'Quality Education' and 'Gender Equality'
(B) 'Decent Work and Economic Growth' and 'Industry, Innovation and Infrastructure'
(C) 'Clean Water and Sanitation' and 'Affordable and Clean Energy'
(D) 'Zero Hunger' and 'Good Health and Well-being'

Ans :

(C) 'Clean Water and Sanitation' and 'Affordable and Clean Energy'
India's total SDG score saw a significant rise from 60 to 66 between 2019 and 2021. The NITI Aayog's SDG India Index report attributes this nationwide improvement primarily to substantial progress made in two key areas: 'Clean Water and Sanitation' (SDG 6) and 'Affordable and Clean Energy' (SDG 7), reflecting successful national initiatives.

Oct/Nov 2022

14. Which state ranked first in the NITI Aayog's SDG India Index 2020-21?
(A) Tamil Nadu
(B) Himachal Pradesh
(C) Goa
(D) Kerala

Ans :

(D) Kerala
According to the NITI Aayog SDG India Index 2020-21, Kerala secured the top rank among all states with a score of 75. The state's consistent high performance across various social, economic,

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weather patterns
(B) Volcanic eruptions and solar cycles
(C) Human activities, primarily the combustion of fossil fuels
(D) Deforestation for agricultural expansion only

Ans :

(C) Human activities, primarily the combustion of fossil fuels
While natural variations can cause climate change, the primary driver of the long-term changes in temperature and weather patterns observed since the 1800s has been human activities. The combustion of fossil fuels like coal, oil, and gas releases heat-trapping gases into the atmosphere, which is the main reason for the accelerated warming of the planet.

Oct/Nov 2009

6. What is the official mission statement of Sustainable Development Goal 13 (SDG 13)?
(A) "To ensure access to affordable and clean energy for all"
(B) "To take urgent action to combat climate change and its impacts"
(C) "To build resilient infrastructure and foster innovation"
(D) "To conserve and sustainably use the oceans, seas and marine resources"

Ans :

(B) "To take urgent action to combat climate change and its impacts"
Sustainable Development Goal 13 is dedicated to climate action. Its official mission statement is to "Take urgent action to combat climate change and its impacts". This goal, recognized by the United Nations in 2015, has specific targets that are intended to be achieved by the year 2030, coordinating global efforts against this critical threat.

May/June 2012

7. The Sustainable Development Goals (SDGs) were formally announced by the United Nations General Assembly in September 2015. What is the designated timeframe for achieving these goals?
(A) 2015-2025
(B) 2012-2027
(C) 2020-2035
(D) 2016-2030

Ans :

(D) 2016-2030
The 17 Sustainable Development Goals (SDGs) and their 169 targets were adopted to spur action over a 15-year period. The official timeframe for the implementation and achievement of the SDGs is from 2016 to 2030. This agenda provides a shared blueprint for peace and prosperity for people and the planet, now and into the future.

Oct/Nov 2014

8. At which international conference were the Sustainable Development Goals (SDGs) first proposed?
(A) The UN Conference on Sustainable Development (Rio+20) in 2012
(B) The Paris Agreement Conference (COP21) in 2015
(C) The Millennium Summit in 2000
(D) The World Summit on Sustainable Development in 2002

Ans :

(A) The UN Conference on Sustainable Development (Rio+20) in 2012
The concept of the Sustainable Development Goals was first proposed in June 2012 at the United Nations Conference on Sustainable Development, also known as Rio+20, held in Rio de Janeiro. These goals were designed to be a more comprehensive successor to the Millennium Development Goals (MDGs), which were set to expire in 2015.

May/June 2019

9. Which of the following is NOT one of the 17 Sustainable Development Goals (SDGs)?
(A) Decent Work and Economic Growth
(B) Reduced Inequalities
(C) Global Trade and Tariffs
(D) Peace, Justice and Strong Institutions

Ans :

(C) Global Trade and Tariffs
The 17 SDGs cover a wide range of social and economic development issues. While trade is an important tool for development, "Global Trade and Tariffs" is not a standalone SDG. The list includes goals like Decent Work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10), and Peace, Justice and Strong Institutions (SDG 16).

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(B) A global surplus of skilled labor leading to widespread wage deflation.
(C) A rapid and uncontested acceleration towards greater economic globalization.
(D) Sustained periods of historically low commodity prices, hurting producer nations.

Ans :

(A) Stagflation and aggressive monetary tightening
The section on recent international economic issues lists several major concerns. Among them are stagflation (a combination of high inflation and stagnant economic growth) and aggressive monetary tightening by central banks to combat inflation. These are identified as significant challenges and potential risks to the global economic system.

Oct/Nov 2023

59. Identify the correct statement regarding India's relationship with the IMF.
(A) India joined the IMF in 1991 as part of its economic reforms.
(B) The RBI Governor is the ex-officio Governor on the IMF's Board of Governors.
(C) In 1970, India was one of the five countries with the highest IMF quotas.
(D) India is currently the largest quota-holding member of the IMF.

Ans :

(C) In 1970, India was one of the five countries with the highest IMF quotas.
The text states that "In 1970, India was one of the 5 countries with the highest IMF quotas, and as a result, India was given a permanent seat on the executive board of directors." The other statements are incorrect: India joined in 1945, the Finance Minister is the ex-officio Governor, and India is the 6th largest quota holder.

May/June 2006

60. A developing country is struggling with its national budget and wants to improve its economic management capabilities to prevent future policy failures. It needs expert guidance on programme design and execution. Which specific function of the IMF would address this need?
(A) Building capacity through technical assistance and training
(B) Financing temporary balance of payments needs
(C) Surveillance over members' economic policies
(D) Mobilizing external financing

Ans :

(A) Building capacity through technical assistance and training
The country's need for expertise in policy design, management, and execution aligns perfectly with the IMF's capacity-building function. The text states this function involves offering "technical support and training to member nations in order to assist them in developing economic policies and improving their economic management capabilities" and supporting "programme design and execution."

Oct/Nov 2013

61. Assertion (A): The Special Drawing Right (SDR) is not a currency in itself.
Reason (R): The SDR is a potential claim on the freely usable currencies of IMF members and serves as the IMF's unit of account.
(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
The assertion that the SDR is not a currency is true. The reason explains why: its nature is that of a potential claim on other currencies, not a medium of exchange itself, and it functions as an accounting unit. This reason correctly clarifies the assertion, making it the correct explanation.

May/June 2013

62. An Indian exporter of textiles finds that a WTO member country is imposing import duties that are higher than the rates committed in its WTO schedule, making Indian exports uncompetitive. Which WTO function is primarily designed to handle such a situation?
(A) Monitoring national trade policies
(B) Handling trade disputes
(C) Providing a forum for trade negotiations
(D) Technical assistance and training for developing countries

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and environmental parameters has placed it at the forefront of India's journey towards achieving the Sustainable Development Goals, followed by Himachal Pradesh and Tamil Nadu.

May/June 2018

15. The NITI Aayog's SDG India Index categorizes scores as: Aspirant (0–49), Performer (50–64), Front Runner (65–99), and Achiever (100). Based on 2020-21 data where Karnataka scored 72, Maharashtra scored 70, and Sikkim scored 71, which of the following states is NOT classified as a 'Front Runner'?
(A) All of the above are 'Front Runners'
(B) Karnataka
(C) Maharashtra
(D) Sikkim

Ans :

(A) All of the above are 'Front Runners'
The 'Front Runner' category includes entities with scores between 65 and 99. According to the provided data, Karnataka (72), Maharashtra (70), and Sikkim (71) all have scores that fall within this range. Therefore, all three states are correctly classified as 'Front Runners' in their progress towards achieving the Sustainable Development Goals for 2020-21.

Oct/Nov 2016

16. Which of the following Indian Government flagship initiatives is mentioned as being key to the SDGs?
(A) Jan Dhan Yojana
(B) Swachh Bharat
(C) Pradhan Mantri Fasal Bima Yojana
(D) Ayushman Bharat

Ans :

(B) Swachh Bharat
Many of the government's flagship initiatives are crucial for achieving the SDGs. The text explicitly mentions 'Swachh Bharat', 'Make in India', 'Skill India', and 'Digital India' as being key to the SDG agenda. These programs rely on state and municipal support and are directly linked to goals like clean sanitation, economic growth, and innovation.

May/June 2014

17. Which government body has been entrusted with the task of coordinating the SDGs in India?
(A) Ministry of Finance
(B) NITI Aayog
(C) Reserve Bank of India
(D) Ministry of Environment, Forest and Climate Change

Ans :

(B) NITI Aayog
The Government of India has entrusted NITI Aayog, its premier policy think tank, with the crucial task of coordinating the 2030 Agenda for Sustainable Development. NITI Aayog is responsible for overseeing the adoption and monitoring of SDGs across the country, working in collaboration with central ministries and state governments to drive progress and ensure alignment.

Oct/Nov 2007

18. As part of its 'Panchamrit' commitments at COP26, by what year has India pledged to achieve the target of net-zero emissions?
(A) 2070
(B) 2030
(C) 2047
(D) 2050

Ans :

(A) 2070
During the United Nations COP26 summit in Glasgow in November 2021, India announced five ambitious commitments, collectively known as 'Panchamrit'. The first and most significant of these pledges is to achieve the target of net-zero emissions by the year 2070, setting a long-term goal for the country's decarbonization pathway.

May/June 2025

19. Which of the 'Panchamrit' commitments made by India at COP26 is INCORRECTLY stated?
(A) Achieving 500 GW non-fossil energy capacity by 2030.
(B) Reducing total projected carbon emissions by one billion tonnes from now till 2030.
(C) Fulfilling 60% of its energy requirements from renewable energy sources by 2030.
(D) Reducing the carbon intensity of its economy by less than 45% by 2030.

Ans :

(C) Fulfilling 60% of its energy requirements from renewable energy sources by 2030.
The incorrect statement is regarding the share of renewable energy. India's 'Panchamrit'

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commitment is to fulfill 50% of its energy requirements from renewable sources by 2030, not 60%. The other commitments, including 500 GW non-fossil capacity, a one-billion-tonne carbon reduction, and a sub-45% carbon intensity reduction, are stated correctly.

Oct/Nov 2019

20. What is the primary goal of the 'One Sun, One World, One Grid' (OSOWOG) initiative announced by India?

(A) To establish a global standard for solar panel manufacturing
(B) To fund solar energy research and development projects worldwide
(C) To create a single global currency backed by solar energy production
(D) To harness solar energy and ensure its distribution to places that need it most

Ans :

(D) To harness solar energy and ensure its distribution to places that need it most
The 'One Sun, One World, One Grid' (OSOWOG) initiative, announced by India at the COP26 meeting, aims to create a globally interconnected solar energy grid. The primary goal is to harness the abundant solar energy and build a transmission infrastructure that ensures the generated electricity gets to places that need it the most, facilitating a global energy transition.

May/June 2009

21. What is the central theme of the mass movement for 'LIFE', which is part of India's updated Nationally Determined Contribution (NDC)?

(A) A focus on large-scale industrial decarbonization and carbon capture technologies
(B) A government-led program for rapid infrastructure development and urban planning
(C) A healthy and sustainable way of living based on conservation and moderation
(D) An international treaty for protecting endangered species and their habitats

Ans :

(C) A healthy and sustainable way of living based on conservation and moderation
The updated NDC introduces 'LIFE', which stands for 'Lifestyle for Environment'. This is a mass movement aimed at promoting a healthy and sustainable way of living rooted in India's traditions and values of conservation and moderation. It emphasizes individual and community action as a key strategy for combating climate change, alongside large-scale policy measures.

Oct/Nov 2011

22. Which group within the Reserve Bank of India (RBI) conducted a survey in January 2022 to assess climate risk and sustainable finance in leading commercial banks?

(A) The Financial Stability and Development Council (FSDC)
(B) The Sustainable Finance Group (SFG) in the Department of Regulation (DoR)
(C) The Department of Economic and Policy Research (DEPR)
(D) The Monetary Policy Committee (MPC)

Ans :

(B) The Sustainable Finance Group (SFG) in the Department of Regulation (DoR)
The Sustainable Finance Group (SFG), located within the RBI's Department of Regulation (DoR), carried out a survey in January 2022. The purpose of this survey was to assess the status of climate risk management and sustainable finance practices among leading scheduled commercial banks in India, providing crucial feedback for future regulatory and supervisory approaches.

May/June 2010

23. The RBI released a "Discussion Paper on Climate Risk and Sustainable Finance" to invite comments from stakeholders. On what date was this paper released?

(A) November 20, 2022
(B) January 1, 2022
(C) November 1, 2021
(D) July 27, 2022

Ans :

(D) July 27, 2022
Following its initial assessments and surveys, the Reserve Bank of India took a significant step by releasing a comprehensive "Discussion Paper on Climate Risk and Sustainable Finance" on July 27, 2022. This paper was intended to solicit comments and feedback from regulated entities and other stakeholders to help shape India's financial regulatory framework in this area.

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Oct/Nov 2024

24. At the UN climate summit (COP27) in Egypt, what major consensus was reached by member countries?

(A) To establish a fund to address loss and damage from climate-induced disasters
(B) To phase out all fossil fuels, including coal and natural gas, by the year 2040
(C) To create a global carbon tax, with a floor price of US 100 per tonne of CO_2
(D) To mandate that 100% of all new light-duty vehicle sales be electric by 2035

Ans :

(A) To establish a fund to address loss and damage from climate-induced disasters
A significant outcome of the UN climate summit (COP27) held in Egypt on November 20, 2022, was the consensus among member countries to establish a dedicated fund. This fund is specifically designed to address the "loss and damage" incurred by vulnerable nations due to climate change-induced disasters, a long-standing demand from developing countries.

May/June 2017

25. According to a World Bank projection, by what percentage is climate change likely to lower India's GDP per year by 2050?

(A) 0.8%
(B) 5.4%
(C) 2.8%
(D) 7.9%

Ans :

(C) 2.8%
The World Bank has projected that climate change will pose substantial economic challenges to India. Even in a best-case scenario, the climate crisis is expected to lower India's Gross Domestic Product (GDP) by 2.8% per year by the year 2050. This highlights the significant economic imperative for India to invest in climate adaptation and mitigation measures.

Oct/Nov 2005

26. The Financial Services Taskforce (FSTF) of the Sustainable Markets Initiative suggests strategies for the banking sector, including benchmarking definitions of sustainable financing, undertaking scenario analysis, and assessing risks and opportunities. Which of the following actions is NOT one of these explicit suggestions?

(A) Directly funding government-led climate adaptation projects
(B) Evaluating potential outcomes through scenario analysis
(C) Standardizing the definition of what constitutes sustainable financing
(D) Identifying both threats and potential gains in sustainable finance

Ans :

(A) Directly funding government-led climate adaptation projects
The excerpt from the Financial Services Taskforce (FSTF) explicitly mentions three strategies for banks: benchmarking definitions, undertaking scenario analysis, and assessing risks and opportunities. While funding green infrastructure is a role for banks, the specific suggestions listed here do not include a mandate to directly fund government-led projects, focusing instead on strategic frameworks and analysis.

May/June 2020

27. What is the definition of "Green Finance"?

(A) Financial arrangements exclusively for government-run projects focused on national park maintenance
(B) Any investment made in the agricultural sector, including both traditional and organic farming methods
(C) A monetary system where currency value is tied to a nation's quantifiable natural resource assets
(D) Financial arrangements for projects that are environmentally sustainable or adopt climate change aspects

Ans :

(D) Financial arrangements for projects that are environmentally sustainable or adopt climate change aspects
Green finance refers to financial arrangements, including loans, investments, and insurance, that are specifically used for projects designed to be environmentally sustainable or those that incorporate aspects of climate change mitigation and adaptation. It aims to increase financial flows from public, private, and non-profit sectors towards sustainable development priorities like renewable energy and clean transportation.

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1100 kWh up to 1500 kWh. How much incentive would a household receive?
(A) ₹1400
(B) ₹3600
(C) ₹800
(D) ₹2200

Ans :

(C) ₹800
The generation-based incentive applies to units generated between 1100 kWh and 1500 kWh. The household generated 1800 kWh, which is above the 1500 kWh ceiling for the incentive. Therefore, the eligible units for the incentive are $1500 - 1100 = 400$ kWh. At a rate of ₹2 per unit, the total incentive would be $400 \times 2 = 800$.

Oct/Nov 2012

38. What is the primary objective of the FAME (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) scheme?
(A) To provide production-linked incentives specifically for domestic battery and motor manufacturing
(B) To support EV adoption through financial incentives and infrastructure development
(C) To create a legal mandate requiring a phased conversion of all public transport to electric
(D) To establish a national research fund focused on non-battery alternatives like hydrogen fuel cells

Ans :

(B) To support EV adoption through financial incentives and infrastructure development
The Government of India launched the FAME scheme in two phases (2015 and 2019) to promote the adoption of electric and hybrid vehicles. Its main objectives are to enhance the flow of credit for these vehicles, reduce their high up-front purchase price through incentives, and develop the necessary supporting infrastructure, such as charging stations

May/June 2011

39. To encourage the adoption of electric vehicles, what incentive does the State Bank of India's 'green car loans' scheme offer compared to its existing car loans?
(A) A 50 basis points lower interest rate and a shorter repayment window
(B) A complete waiver of processing fees and insurance costs
(C) A fixed interest rate for the entire loan tenure
(D) A 20 basis points lower interest rate and a longer repayment window

Ans :

(D) A 20 basis points lower interest rate and a longer repayment window
To counter the high upfront cost of electric vehicles, the State Bank of India introduced a special 'green car loans' scheme. This scheme provides an incentive to buyers by offering a lower interest rate (specifically, 20 basis points lower) and a longer repayment window compared to the terms of its conventional car loans.

Oct/Nov 2020

40. Under the RBI's Priority Sector Lending (PSL) scheme, what is the loan limit for households to invest in renewable energy?
(A) ₹10 lakh
(B) ₹5 lakh
(C) ₹15 lakh
(D) ₹30 lakh

Ans :

(A) ₹10 lakh
The Reserve Bank of India included the small renewable energy sector under its Priority Sector Lending (PSL) scheme in 2015 to promote green finance. Under this scheme, households are eligible for loans up to ₹10 lakh for the purpose of investing in renewable energy solutions, such as rooftop solar panels for their homes.

May/June 2022

41. The loan limit for firms in the renewable energy sector under the Priority Sector Lending (PSL) scheme was increased on September 4, 2020. What is the new, increased limit?
(A) ₹20 crore
(B) ₹40 crore
(C) ₹30 crore
(D) ₹50 crore

Ans :

(C) ₹30 crore
To further boost lending to the renewable energy sector, the RBI revised the Priority Sector Lending (PSL) limits. On September 4, 2020, the loan limit for firms operating in this sector was increased to ₹30 crore. This was a doubling of the previous limit, which stood at ₹15 crore, signaling stronger support.

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Ans :

(B) National Action Plan on Climate Change (NAPCC)

In 2008, the Government of India formulated the National Action Plan on Climate Change (NAPCC). This comprehensive document served as the broad policy framework to outline the country's vision and strategy for mitigating the impacts of climate change and adapting to its effects, comprising several targeted national missions across different sectors.

May/June 2006

33. The Climate Change Finance Unit (CCFU) was formed in 2011 as a coordinating agency for green finance institutions in India. Within which ministry was it established?

(A) Ministry of Environment, Forest and Climate Change
(B) Ministry of Finance
(C) Ministry of New and Renewable Energy
(D) Ministry of Corporate Affairs

Ans :

(B) Ministry of Finance

The Climate Change Finance Unit (CCFU) was established in 2011 to act as a central coordinating agency for the various institutions involved in green finance within India. This important unit was formed within the Ministry of Finance, underscoring the government's recognition of the financial and economic dimensions of addressing climate change challenges.

Oct/Nov 2017

34. Since 2012, which regulatory body has made it mandatory for the top 100 listed entities by market capitalization to publish annual business responsibility reports?

(A) Securities and Exchange Board of India (SEBI)
(B) Reserve Bank of India (RBI)
(C) Insurance Regulatory and Development Authority of India (IRDAI)
(D) NITI Aayog

Ans :

(A) Securities and Exchange Board of India (SEBI)

A major strategic move since 2012 was the implementation of sustainability disclosure requirements. The Securities and Exchange Board of India (SEBI) mandated that the top 100 entities listed on the BSE and NSE, based on market capitalization, must publish annual business responsibility reports. This mandate has been revised and expanded over time.

May/June 2008

35. As per India's commitments under the 2015 Paris Agreement, what is the target for installed electric power capacity from non-fossil sources by 2030?

(A) 20%
(B) 33%
(C) 40%
(D) 50%

Ans :

(C) 40%

The fiscal and financial incentives in India are aligned with its commitments made under the 2015 Paris Agreement. One of the key targets was to achieve 40% of the country's total installed electric power capacity from non-fossil fuel sources by the year 2030, alongside reducing greenhouse gas emission intensity.

Oct/Nov 2013

36. The Government of India offers a subsidy for rooftop solar panels. What is the maximum subsidy percentage available for institutional, residential, and social sectors in special category states?

(A) 30%
(B) 50%
(C) 90%
(D) 70%

Ans :

(D) 70%

To promote solar energy, the Government of India provides a subsidy of 30% of the installation cost for rooftop solar panels in most states. However, for certain special category states, this financial support is enhanced, and the subsidy can be as high as 70% of the total installation cost.

May/June 2015

37. A residential society in a special category state installs rooftop solar panels. The total generation for the year is 1800 kWh per household. Under the generation-based incentive scheme, a household can receive ₹2 per unit for generation exceeding

NODIA

2% to 1%.

(D) It made CSR spending voluntary for all companies.

Ans :

(B) It replaced the provision of imprisonment with monetary penalties.

The excerpt clearly states that in 2020, a significant change was made to the penalty structure for CSR non-compliance. A provision for imprisonment of up to three years for defaulting officers, which had been introduced in 2019, was replaced with a system of monetary penalties. This marked a shift away from criminal liability towards financial accountability.

May/June 2018

57. Assertion (A): Climate change is considered a poverty multiplier.

Reason (R): Climate change threatens economic growth, increases the number of poor people, makes them poorer, and widens inequality.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

Assertion (A) is a correct statement. Reason (R) accurately explains why climate change acts as a poverty multiplier. Its adverse impacts on livelihoods, food security, health, and infrastructure disproportionately affect vulnerable populations, pushing more people into poverty, exacerbating the conditions of those already poor, and widening the gap between the rich and poor.

Oct/Nov 2016

58. Identify the correct statement regarding India's progress on the SDG India Index.

(A) India's total SDG score decreased from 66 in 2019 to 60 in 2021.

(B) The improvement in the score was mainly due to progress in 'Gender Equality'.

(C) Kerala was followed by Punjab and Haryana in the top rankings.

(D) The overall score improved due to nationwide gains in 'clean water and sanitation'.

Ans :

(D) The overall score improved due to nationwide gains in 'clean water and sanitation'.

India's SDG score increased from 60 to 66 from 2019 to 2021. This progress was attributed to nationwide improvements in 'clean water and sanitation' and 'affordable and clean energy'. Kerala ranked first, followed by Himachal Pradesh and Tamil Nadu, not Punjab and Haryana. Thus, the only correct statement is about the drivers of improvement.

May/June 2014

59. A new private sector bank is formulating its strategy to contribute to India's climate goals by aligning its lending portfolio with national commitments. Which of the following 'Panchamrit' targets would be most relevant for the bank's long-term energy financing strategy?

(A) Achieving net-zero emissions by 2070.

(B) Achieving 500 GW non-fossil energy capacity by 2030.

(C) Reducing carbon emissions by one billion tonnes by 2030.

(D) Ensuring the country is free of single-use plastic by 2022.

Ans :

(B) Achieving 500 GW non-fossil energy capacity by 2030.

For a bank's energy financing strategy, the most directly relevant and actionable target is achieving 500 GW of non-fossil energy capacity by 2030. This specific, quantifiable goal provides a clear signal for investment in renewable energy projects like solar and wind, which the bank can directly finance, unlike the broader net-zero or emissions reduction targets.

Oct/Nov 2007

60. Arrange the following events related to green finance in India in chronological order:

I. Formation of the Climate Change Finance Unit (CCFU) in the Ministry of Finance.

II. Formulation of the National Action Plan on Climate Change (NAPCC).

III. RBI issues notification on "CSR, Sustainable Development and Non-Financial Reporting".

IV. SEBI mandates business responsibility reports for top 100 listed entities.

(A) III, II, I, IV

(B) I, II, III, IV

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Oct/Nov 2023

42. In September 2019, what target did India announce for renewable energy generation to be reached by 2030?
(A) 450 GW
(B) 175 GW
(C) 250 GW
(D) 500 GW

Ans :

(A) 450 GW
In September 2019, India significantly raised its ambition for renewable energy. The government announced a new target to achieve 450 GW of renewable energy generation capacity by the year 2030. This was a substantial increase from the previous target and aligned with the country's long-term strategy to transition towards cleaner energy sources.

May/June 2016

43. According to a report, the aggregate outstanding bank credit to the non-conventional energy sector was around ₹36,543 crore as at end-March 2020, constituting 7.9% of the outstanding bank credit to power generation, compared to 5.4% in March 2015. What was the approximate increase in the share during this period?
(A) 1.5 percentage points
(B) 5.4 percentage points
(C) 7.9 percentage points
(D) 2.5 percentage points

Ans :

(D) 2.5 percentage points
According to the provided data, the share of outstanding bank credit to the non-conventional energy sector as a percentage of total power generation credit was 5.4% in March 2015. By the end of March 2020, this share had grown to 7.9%. The increase is the difference between these two figures: 7.9% - 5.4% = 2.5%.

Oct/Nov 2009

44. What defines a "green bond"?
(A) A debt instrument issued exclusively by firms in the agriculture or forestry sectors
(B) A bond whose proceeds are used for projects classified as environmentally sustainable
(C) A government-issued sovereign bond with a minimum maturity period of twenty years
(D) A corporate debt instrument that is dematerialized and traded only on electronic exchanges

Ans :

(B) A bond whose proceeds are used for projects classified as environmentally sustainable
A green bond is a debt instrument issued by a sovereign entity, inter-governmental group, or corporation. The defining characteristic of a green bond is the explicit commitment that the proceeds from its issuance will be exclusively utilized to finance or re-finance projects that are classified as environmentally sustainable, such as renewable energy or green buildings.

May/June 2023

45. As of February 12, 2020, what was the total outstanding amount of green bonds in India?
(A) US$ 8 billion
(B) US$ 36.5 billion
(C) US$ 16.3 billion
(D) US$ 450 billion

Ans :

(C) US$ 16.3 billion
India began issuing green bonds in 2015, and the market has seen steady growth. According to the data provided, as of February 12, 2020, the total outstanding amount of green bonds issued in India had reached US$ 16.3 billion, reflecting a growing appetite for sustainable investment instruments in the country.

Oct/Nov 2018

46. Green bonds issued in India since January 1, 2018, constituted what percentage of all the bonds issued in the Indian financial market during that period?
(A) 0.7%
(B) 2.8%
(C) 5.4%
(D) 7.9%

Ans :

(A) 0.7%
Despite India's favorable position in the green bond market compared to some economies, these instruments still form a small fraction of the overall bond market. The value of green bonds issued since January 1, 2018, constituted about 0.7% of all bonds issued in the Indian financial market, indicating that green finance is still in a nascent stage.

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Oct/Nov 2015

28. Which of the following is an example of an environmentally sustainable project that would be eligible for green finance?
(A) Construction of a new coal-fired power plant with carbon capture technology
(B) A green building project designed for energy efficiency
(C) Expansion of a highway network to reduce traffic congestion
(D) Development of a new oil and gas exploration site

Ans :

(B) A green building project designed for energy efficiency
Environmentally sustainable projects eligible for green finance include those that promote sustainability. A green building designed for high energy efficiency fits this description perfectly. Other examples include renewable energy generation (solar, wind), clean transportation, and waste management involving recycling. Projects based on fossil fuels, even with efficiency improvements, are generally not considered green finance.

May/June 2013

29. Which of the following is NOT listed as a project type defined as sustainable under the disclosure requirements for Green Debt Securities?
(A) Sustainable land use including sustainable forestry and agriculture
(B) Biodiversity conservation
(C) Urban infrastructure development without specific environmental criteria
(D) Climate change adaptation and sustainable waste management

Ans :

(C) Urban infrastructure development without specific environmental criteria
The disclosure requirements for Green Debt Securities specify several categories of sustainable projects. These include climate change adaptation, sustainable waste and water management, sustainable land use (forestry, agriculture), and biodiversity conservation. General urban infrastructure development, unless it meets specific sustainability criteria like green buildings or clean transport, is not explicitly listed as a qualifying category.

Oct/Nov 2021

30. Which of the following is considered a new financial instrument being established to meet the needs of green projects?
(A) Treasury Bills
(B) Commercial Paper
(C) Corporate Debentures
(D) Carbon tax

Ans :

(D) Carbon tax
To finance environmentally sustainable projects, new financial instruments and institutions are being established. The text mentions green bonds, carbon market instruments (such as a carbon tax), and new institutions like green banks and green funds. A carbon tax is a market-based instrument designed to internalize the cost of carbon emissions, thereby constituting a part of green finance mechanisms.

May/June 2024

31. In what year did the Reserve Bank of India first issue a notification that mentioned global warming and climate change in the context of sustainable development for banks?
(A) 2007
(B) 2005
(C) 2011
(D) 2015

Ans :

(A) 2007
India's emphasis on green finance began as early as 2007. In December of that year, the Reserve Bank of India issued a significant notification titled "Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting - Role of Banks". This was a key early step that highlighted the importance of global warming and climate change for the banking sector.

Oct/Nov 2008

32. What is the full name of the policy framework formulated in 2008 to outline India's approach to mitigating climate change impacts?
(A) National Environment Policy (NEP)
(B) National Action Plan on Climate Change (NAPCC)
(C) Green India Mission (GIM)
(D) National Solar Mission (NSM)

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Oct/Nov 2006

52. Which schedule of the Companies Act, 2013 provides the overall direction for CSR efforts by listing permissible activities?
(A) Schedule V
(B) Schedule VI
(C) Schedule VII
(D) Schedule VIII

Ans :

(C) Schedule VII
Schedule VII of the Companies Act, 2013 is intrinsically linked to Section 135 and provides the guiding framework for CSR in India. It lists the broad areas and specific activities on which companies can spend their mandatory CSR funds. These activities are often aligned with national development priorities and, by extension, the Sustainable Development Goals.

May/June 2021

53. The alignment of CSR activities under Schedule VII of the Companies Act, 2013, helps in achieving several SDGs. Which of the following SDGs are explicitly mentioned as being built into CSR activities in India?
(A) SDG 8, 9, and 11
(B) SDG 13, 14, and 15
(C) SDG 1, 2, 3, and 6
(D) SDG 5, 10, and 16

Ans :

(C) SDG 1, 2, 3, and 6
CSR activities in India, as guided by Schedule VII, are directly associated with several key SDGs. The text explicitly mentions that CSR attempts to eliminate hunger, poverty, and malnutrition, and promote healthcare and sanitation. This directly corresponds to SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 3 (Good Health and Well-being), and SDG 6 (Clean Water and Sanitation).

Oct/Nov 2010

54. A large corporation in India spends 3.5% of its average net profits on CSR activities in a financial year, whereas the mandated amount is 2%. According to the current rules, what can the company do with the excess amount spent?
(A) The excess amount lapses and cannot be carried forward.
(B) The excess amount can be claimed as a tax deduction in the same year.
(C) The excess amount can be set off against the CSR spending obligation in future years.
(D) The excess amount must be transferred to the Prime Minister's National Relief Fund.

Ans :

(C) The excess amount can be set off against the CSR spending obligation in future years.
The CSR rules in India allow for flexibility in spending. Companies are permitted to spend more than the mandated 2% of their net profits on CSR in any given year. The excess amount spent can be carried forward and set off against the company's CSR spending obligation in subsequent financial years, subject to certain conditions.

May/June 2005

55. In the evolution of penalties for non-compliance with CSR provisions, how is non-compliance currently characterized?
(A) As a criminal offence with mandatory imprisonment
(B) As a minor infraction with only a warning issued
(C) As a breach of contract with suppliers and customers
(D) As a "civil wrong" under a penalty regime

Ans :

(D) As a "civil wrong" under a penalty regime
The government has amended the law regarding penalties for CSR non-compliance. Initially treated as a criminal offence, the latest development has shifted this stance. Non-compliance with CSR provisions is now characterized as a "civil wrong," not a crime. This change moved such violations from a criminal prosecution framework to a penalty regime involving financial fines.

Oct/Nov 2022

56. In July 2019, the Indian government amended the law that treated non-compliance with CSR provisions as a criminal offence. In 2020, penalties of at least ₹1 crore for a company and ₹2 lakhs for each officer were introduced to replace imprisonment. Subsequently, non-compliance was re-characterized as a 'civil wrong'. What was the major change introduced in 2020?
(A) It decriminalized the offence entirely.
(B) It replaced the provision of imprisonment with monetary penalties.
(C) It reduced the mandatory CSR spending from

NODIA

May/June 2007

47. Most green bonds issued in India since 2015 have had maturities of what duration?
(A) Less than five years
(B) Five years or above, but less than 10 years
(C) Exactly 10 years
(D) More than 10 years

Ans :

(B) Five years or above, but less than 10 years
The maturity profile of green bonds issued in India since 2015 shows a specific trend. The majority of these bonds have been issued with maturities of five years or more, but typically less than ten years. While some issuers have ventured into longer tenures of 10 years or more, the 5-10 year bracket has been the most common.

Oct/Nov 2025

48. A financial analyst is reviewing the Indian green bond market for an example of a corporate issuer that has issued a green bond with a maturity of less than 5 years. Which of the following companies fits this specific criterion?
(A) Yes Bank Ltd.
(B) Renew Power Pvt. Ltd.
(C) Indian Railway Finance Corporation Ltd.
(D) Adani Renewable Energy Ltd.

Ans :

(B) Renew Power Pvt. Ltd.
The text provides specific examples of green bond issuers and their tenors. While issuers like Yes Bank, IRFC, and Adani Renewable Energy have issued bonds with maturities of 10 years or more, Renew Power Pvt. Ltd. is explicitly mentioned as having issued a green bond in 2019 with a maturity period of less than 5 years.

May/June 2012

49. What was the primary currency of denomination for the majority of green bonds issued in India since 2015?
(A) Indian Rupee (INR)
(B) Japanese Yen (JPY)
(C) Euro (EUR)
(D) US Dollar (US$)

Ans :

(D) US Dollar (US$)
A significant feature of the Indian green bond market is its currency denomination. Around 76% of the green bonds that have been issued in India since the market's inception in 2015 were denominated in US Dollars. This preference for a foreign currency highlights the role of international capital in funding India's green projects.

Oct/Nov 2014

50. What is the fundamental aim of Corporate Social Responsibility (CSR)?
(A) To prioritize maximizing shareholder value above all other stakeholder considerations
(B) To ensure full compliance with all mandated legal standards for operations and safety
(C) To voluntarily incorporate economic, social, and environmental obligations into business operations
(D) To allocate a fixed budget for philanthropic activities unrelated to the main business

Ans :

(C) To voluntarily incorporate economic, social, and environmental obligations into business operations
The core aim of Corporate Social Responsibility (CSR) extends beyond mere compliance or philanthropy. It involves the voluntary integration of economic, social, and environmental concerns into a company's core business operations and its interactions with stakeholders, with the goal of achieving long-term sustainable growth and creating a positive impact on society and the environment.

May/June 2019

51. Which section of the Companies Act, 2013 provides the legal support for Corporate Social Responsibility (CSR) in India?
(A) Section 125
(B) Section 135
(C) Section 145
(D) Section 155

Ans :

(B) Section 135
The legal framework for Corporate Social Responsibility (CSR) in India is provided by Section 135 of the Companies Act, 2013. This section, along with its associated rules and Schedule VII, mandates that companies meeting certain thresholds of net worth, turnover, or profit must spend a portion of their earnings on specified CSR activities.

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(C) III, IV, II, I
(D) II, III, I, IV

Ans :

(A) III, II, I, IV
The correct chronological order is: The RBI issued its notification in December 2007 (III). The NAPCC was formulated in 2008 (II). The CCFU was formed within the Ministry of Finance in 2011 (I). SEBI's mandate for business responsibility reports for top listed companies began in 2012 (IV). Therefore, the correct sequence is III, II, I, IV.

May/June 2025

61. Which of the following statements about Green Finance in India is incorrect?
(A) The FAME scheme was launched to encourage the production and sale of electric vehicles.
(B) The RBI included the small renewable energy sector under its Priority Sector Lending scheme in 2015.
(C) All green bonds issued in India since 2015 have been denominated in Indian Rupees.
(D) The government offers subsidies on the installation cost of rooftop solar panels.

Ans :

(C) All green bonds issued in India since 2015 have been denominated in Indian Rupees.
This statement is incorrect. The text explicitly states that around 76% of the green bonds issued in India since 2015 were denominated in US Dollars. The other statements are correct: the FAME scheme supports EVs, the RBI included renewables in PSL in 2015, and the government provides subsidies for rooftop solar installations.

Oct/Nov 2019

62. Consider the following statements regarding the Sustainable Development Goals (SDGs):
1. The SDGs consist of 17 Goals and 169 targets.
2. The timeframe for achieving the SDGs is 2016-2030.
3. The SDGs were proposed at the UN Conference on Sustainable Development (Rio+20).

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
All three statements are correct. The UN's 2030 Agenda for Sustainable Development comprises 17 Goals and 169 associated targets. The official implementation period is from 2016 to 2030. The idea for these goals was first conceived and proposed at the UN Conference on Sustainable Development (Rio+20) in 2012 as a successor to the MDGs.

May/June 2009

63. Match List-I (Panchamrit Commitment) with List-II (Target Year/Value).

	List-I (Panchamrit Commitment)		**List-II (Target Year/ Value)**
P.	Net-zero Emissions	1.	By 2030
Q.	Non-fossil Energy Capacity	2.	500 GW
R.	Share of Renewable Energy	3.	2070
S.	Carbon Intensity Reduction	4.	50%

(A) P-3, Q-2, R-4, S-1
(B) P-1, Q-2, R-4, S-3
(C) P-3, Q-4, R-2, S-1
(D) P-1, Q-4, R-2, S-3

Ans :

(A) P-3, Q-2, R-4, S-1
The correct matches for India's 'Panchamrit' commitments are: Net-zero Emissions target is for the year 2070 (P-3). The Non-fossil Energy Capacity target is 500 GW by 2030 (Q-2). The target Share of energy from Renewable sources is 50% by 2030 (R-4). The Carbon Intensity Reduction target of less than 45% is also for 2030 (S-1).

Oct/Nov 2011

64. Identify the incorrect pair of an Indian state/UT and its score in the SDG India Index 2020-21.
(A) Kerala - 75
(B) Tamil Nadu - 74
(C) Chandigarh - 79
(D) Bihar - 62

Ans :

(D) Bihar - 62

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considerably lower than the rural poverty rate of 25.7%. The disparity is attributed to factors such as a lack of decent infrastructure and weaker labour markets in rural India.

May/June 2021

10. What is the primary objective of poverty alleviation programmes in India?

(A) To reduce poverty by providing essential resources like food, finance, and necessities
(B) To offer substantial tax incentives to large corporations to stimulate industrial growth
(C) To concentrate solely on urban infrastructure projects for the creation of new smart cities
(D) To actively encourage mass migration from rural regions to urban centers for jobs

Ans :

(A) To reduce poverty by providing essential resources like food, finance, and necessities
Poverty alleviation programmes are designed as a direct intervention to reduce poverty. Their core objective is to provide households and families living below the poverty line with adequate access to essential resources. This includes ensuring food security, providing financial assistance, and making basic necessities available, thereby aiming to uplift them from poverty.

Oct/Nov 2010

11. Which of the following is NOT listed as a major poverty alleviation programme implemented in India?

(A) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)
(B) Pradhan Mantri Jan Dhan Yojana (PMJDY)
(C) National Food Security Mission (NFSM)
(D) Foreign Direct Investment Promotion Scheme (FDI-PS)

Ans :

(D) Foreign Direct Investment Promotion Scheme (FDI-PS)
The text lists several major poverty alleviation programmes, including MGNREGA, PMJDY, National Food Security Mission, IRDP, JGSY, PMGKY, and PM Svanidhi. A Foreign Direct Investment (FDI) Promotion Scheme, while aimed at economic growth, is not specifically categorized as a direct poverty alleviation programme focused on providing necessities and support to the poor.

May/June 2007

12. Match the scheme with its full form.

List-I (Abbreviation)
P. IRDP
Q. JGSY
R. PMGKY
S. MGNREGA
List-II (Full Form)
1. Jawahar Gram Samridhi Yojana
2. Mahatma Gandhi National Rural Employment Guarantee Act
3. Integrated Rural Development Programme
4. Pradhan Mantri Garib Kalyan Yojana

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-3, Q-1, R-4, S-2
The correct matching is based on the full forms of the poverty alleviation programmes listed. IRDP stands for Integrated Rural Development Programme. JGSY is Jawahar Gram Samridhi Yojana. PMGKY represents Pradhan Mantri Garib Kalyan Yojana. MGNREGA is the Mahatma Gandhi National Rural Employment Guarantee Act. These schemes target poverty through various means.

Oct/Nov 2022

13. What is the defining characteristic of the economic phenomenon known as 'jobless growth'?

(A) The economy contracts while the employment level increases significantly
(B) Both the economy and the employment level grow at the same proportional rate
(C) The economy grows while maintaining or lowering its level of employment
(D) Both the economy and the employment level decline simultaneously during a recession

Ans :

(C) The economy grows while maintaining or lowering its level of employment
Jobless growth is an economic situation where a country's Gross Domestic Product (GDP) increases, but the level of employment either remains stagnant or decreases. This paradox occurs when economic expansion does not translate into the creation of new jobs, often

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66 in 2021, owing to nationwide improvements in 'clean water and sanitation' and 'affordable and clean energy'... Kerala ranked first on the Index, followed by Himachal Pradesh, Tamil Nadu, Andhra Pradesh, and Goa.' Based on this text, what can be inferred?

(A) Progress is uniform across all 17 SDGs.
(B) Southern and Himalayan states are among the top performers.
(C) The progress is solely driven by government initiatives without private sector involvement.
(D) India has already achieved the 'Achiever' status with a score of 100.

Ans :

(B) Southern and Himalayan states are among the top performers.
The text explicitly states that Kerala ranked first, followed by Himachal Pradesh, Tamil Nadu, Andhra Pradesh, and Goa. This list includes southern states (Kerala, Tamil Nadu, Andhra Pradesh, Goa) and a Himalayan state (Himachal Pradesh), supporting the inference that these regions are among the top performers. The text does not support the other inferences.

Oct/Nov 2015

70. Which of the following goals is explicitly mentioned as being addressed by CSR activities through contributions to the Central Government's 'Swachh Bharat Kosh' programme?

(A) Promoting gender equality
(B) Promoting sanitation and ensuring availability of safe drinking water
(C) Promoting decent work and economic growth
(D) Reducing inequalities within and among countries

Ans :

(B) Promoting sanitation and ensuring availability of safe drinking water
The text directly links CSR activities to specific SDGs and government programs. It states that CSR intends to promote sanitation and ensure the availability of safe drinking water by contributing to the Central Government's 'Swachh Bharat Kosh' programme. This directly aligns with the objectives of SDG 6 (Clean Water and Sanitation).

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CHAPTER 11

Issues Facing Indian Economy

Oct/Nov 2014

1. According to the National Statistical Office's (NSO) provisional estimate, what was the growth rate of the Indian economy in FY22?
(A) 6.6%
(B) 8.7%
(C) 8.9%
(D) 6.9%

Ans :

(B) 8.7%
The NSO's provisional estimate indicated that the Indian economy expanded by 8.7% in the fiscal year 2022 (FY22). This growth followed a significant contraction of 6.6% in the previous fiscal year, FY21, highlighting a strong rebound. The recovery pace, however, was noted to have moderated due to various global and domestic factors.

May/June 2023

2. What was the state of the Indian economy in FY21 as per the National Statistical Office (NSO) data?
(A) It contracted by 6.6%
(B) It grew by 6.6%
(C) It grew by 8.7%
(D) It contracted by 8.7%

Ans :

(A) It contracted by 6.6%
As per the NSO's provisional estimate, the Indian economy experienced a contraction of 6.6% in the fiscal year 2021 (FY21). This economic downturn set the stage for the subsequent recovery in FY22. The contraction was a significant event, largely influenced by the initial impact of the global pandemic on economic activities across sectors.

Oct/Nov 2006

3. Which of the following factors were cited as reasons for undermining manufacturers' confidence and moderating economic recovery?
(A) A significant decrease in global energy prices and stabilization of raw material costs
(B) A strong surge in domestic consumer demand and government-led reductions in import duties
(C) Rising cost pressures from energy and materials, alongside a notable drop in demand
(D) New government subsidies on domestic production and a sharp increase in foreign export orders

Ans :

(C) Rising cost pressures from energy and materials, alongside a notable drop in demand
The moderation in economic recovery was attributed to global factors leading to cost pressures. These pressures stemmed from rising energy and raw material prices. This situation was further compounded by a decline in demand, partly due to the emergence of a new COVID variant, which collectively undermined the confidence of manufacturers in the economy.

May/June 2011

4. According to the IMF's April 2022 World Economic Outlook (WEO), what was the projected growth for the Indian economy in fiscal year 2022-23?
(A) 6.9%
(B) 8.7%
(C) 6.8%
(D) 8.9%

Ans :

(D) 8.9%
The International Monetary Fund's (IMF) World Economic Outlook, released in April 2022, projected a robust growth rate of 8.9% for the Indian economy in the fiscal year 2022-23. The report also forecasted a subsequent slowdown to 6.9% in the following fiscal year, 2023-24, while still positioning India as a fast-growing economy.

NODIA

Oct/Nov 2025

5. What growth rate did the World Bank project for India in FY23 in its January 2022 global economic outlook report?
(A) 8.9%
(B) 6.8%
(C) 8.7%
(D) 6.9%

Ans :

(C) 8.7%
In its January 2022 global economic outlook report, the World Bank projected that the Indian economy would grow by 8.7% in the fiscal year 2022-23 (FY23). This was followed by a projected growth of 6.8% in FY24. These figures positioned India to be the world's fastest-growing major economy for the foreseeable future.

May/June 2005

6. In response to the economic slowdown triggered by the COVID-19 pandemic, what policy measures were adopted by the fiscal and monetary authorities in India?
(A) Strict fiscal consolidation measures and an immediate tightening of monetary policy
(B) Flexible fiscal policies for vulnerable groups alongside an accommodative monetary policy
(C) Increased direct taxation on all income groups and reduced market liquidity provision
(D) Reduced public spending on key sectors and increased interest rates to manage inflation

Ans :

(B) Flexible fiscal policies for vulnerable groups alongside an accommodative monetary policy
To counter the profound economic slowdown from the pandemic, Indian authorities implemented a two-pronged strategy. Fiscal authorities, the Government, adopted flexible policies, including enhanced support for vulnerable populations. Concurrently, the monetary authority, the RBI, eased liquidity provisions and maintained a prolonged easy monetary policy to stimulate economic activity and provide necessary support.

Oct/Nov 2019

7. Which of the following is NOT listed as one of India's perplexing economic issues?
(A) Jobless economic growth and chronic unemployment
(B) Burgeoning disparities in wealth distribution
(C) Infrastructure bottlenecks and overdependence on agriculture
(D) Strong domestic demand and high-quality human capital

Ans :

(D) Strong domestic demand and high-quality human capital
The text identifies several economic challenges, including weak demand and poor human capital quality. Therefore, strong domestic demand and high-quality human capital are contrary to the issues mentioned. Other listed problems include jobless growth, wealth disparities, infrastructure bottlenecks, overdependence on agriculture, rising government debt, and urban migration, which collectively challenge India's economic progress.

May/June 2016

8. According to the Planning Commission of India's 2011-12 estimates, what was the poverty rate for the rural population?
(A) 25.7%
(B) 13.7%
(C) 21.9%
(D) 33.7%

Ans :

(A) 25.7%
Based on the Planning Commission's estimates for the year 2011-12, 25.7% of India's rural population was living below the poverty line. This figure was significantly higher than the urban poverty rate of 13.7%, highlighting the greater prevalence of poverty in rural areas due to factors like inadequate infrastructure and a weak labour market.

Oct/Nov 2009

9. As per the 2011-12 Planning Commission data, what was the percentage of the urban population below the poverty line?
(A) 25.7%
(B) 15.7%
(C) 13.7%
(D) 23.7%

Ans :

(C) 13.7%
The Planning Commission of India's estimates for 2011-12 indicated that 13.7% of the urban population was below the poverty line. This was

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(D) The movement of people between locations to pursue better economic opportunities

The chapter defines migration primarily as the movement of individuals or groups from one place to another. The core motivation highlighted for this movement is the pursuit of better economic opportunities available in the receiving location. While other factors exist, this economic driver is presented as a fundamental aspect of the phenomenon of migration.

May/June 2013

28. Which of the following is NOT listed as a factor influencing the worldwide phenomenon of migration?

(A) Social and Political factors
(B) Technological and entertainment factors
(C) Environmental and Health factors
(D) Economic and Educational factors

Ans :

(B) Technological and entertainment factors

Migration is described as a complex, worldwide phenomenon influenced by a wide array of interconnected aspects. The text explicitly lists social, political, cultural, environmental, health, and educational factors as key drivers. Technological and entertainment factors, while they may play an indirect role, are not mentioned as primary drivers of the migration process.

Oct/Nov 2021

29. Why is it difficult to distinguish 'pure' environment-induced migration?

(A) Because environmental factors are always the sole and isolated cause of migration
(B) Because migrants consistently refuse to disclose the real reasons for their movement
(C) Due to strong links between environmental conditions and other socio-economic and political forces
(D) Because official government data on environmental migration is typically classified and unavailable

Ans :

(C) Due to strong links between environmental conditions and other socio-economic and political forces

The text clarifies that environmental factors rarely act in isolation to cause migration. Instead, changing environmental conditions often worsen existing economic, social, and political pressures. This strong interconnection and compounding effect make it very difficult to isolate and identify migration that is purely and solely induced by environmental change alone, without other contributing factors.

May/June 2024

30. What is a potential negative impact of in-migration on the destination's landscape?

(A) Preservation of local natural resources due to new migrant-led conservation efforts
(B) A beneficial effect on soil and water conservation from new agricultural knowledge
(C) Reduced pressure on local infrastructure due to the creation of new businesses
(D) Acceleration of environmental degradation due to overexploitation of local resources

Ans :

(D) Acceleration of environmental degradation due to overexploitation of local resources

While out-migration can be driven by environmental pressures, in-migration can create new ones. The arrival of a new population can have a significant impact on the landscape of the destination. This is often due to the overexploitation of local natural resources to meet the needs of more people, which has the potential to accelerate environmental degradation.

Oct/Nov 2008

31. According to research mentioned in the text, how does the resource usage of migrants compare to that of local populations?

(A) Migrants tend to use local resources more wastefully, acting as significant degraders
(B) Migrants generally introduce new techniques and use local resources more efficiently
(C) Migrants and local populations demonstrate nearly identical patterns of resource consumption
(D) Migrant populations typically have no statistically significant impact on resource consumption

Ans :

(A) Migrants tend to use local resources more wastefully, acting as significant degraders

The text cites research that points to a significant negative environmental impact of migration. This research suggests that migrants tend to use resources more wastefully compared to the

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due to factors like increased reliance on capital-intensive technology and structural issues in the economy.

May/June 2012

14. Which of the following is identified as a potential cause of jobless growth in a growing economy?
(A) Strong reliance on traditional labour-intensive industries like handicrafts
(B) Highly flexible and adaptive labour laws that encourage easy hiring
(C) Balanced and integrated growth across agricultural, industrial, and service sectors
(D) A stronger reliance on capital-intensive industries over labour-intensive ones

Ans :

(D) A stronger reliance on capital-intensive industries over labour-intensive ones
Jobless growth can be caused by several factors, including a significant reliance on capital-intensive industries over labour-intensive ones. When growth is driven by sectors that use more machinery and technology than human labour, employment generation lags behind economic output. Stringent labour laws and structural factors are also cited as contributing causes to this phenomenon.

Oct/Nov 2018

15. According to Census 2011 data for the period 2001-11, what was the relationship between the labour force growth rate and the employment growth rate in India?
(A) Labour force growth rate (2.23%) was higher than employment growth rate (1.4%)
(B) Employment growth rate (2.23%) was higher than labour force growth rate (1.4%)
(C) Both rates were identical at 2.23%
(D) Labour force growth rate (1.8%) was lower than employment growth rate (7%)

Ans :

(A) Labour force growth rate (2.23%) was higher than employment growth rate (1.4%)
The data from Census 2011 for the decade 2001-11 illustrates the challenge of jobless growth in India. During this period, the labour force grew at a rate of 2.23%. However, the rate of employment growth was only 1.4%, indicating that the economy was not creating jobs fast enough to absorb new entrants.

May/June 2019

16. During a period when India's average annual economic growth rate was approximately 7%, what was the corresponding employment growth rate?
(A) 7%
(B) 1.8%
(C) 1.4%
(D) 2.23%

Ans :

(B) 1.8%
The text highlights a significant gap between economic growth and job creation. While the Indian economy was growing at an impressive average annual rate of approximately 7%, the corresponding employment growth was a much lower 1.8%. This disparity is a classic indicator of the jobless growth phenomenon being experienced by the country.

Oct/Nov 2016

17. Which sector is identified as the primary driver of economic growth in India today, contributing to the issue of jobless growth?
(A) The labour-intensive industrial sector
(B) The knowledge-intensive services sector
(C) The agriculture and allied activities sector
(D) The small-scale manufacturing sector

Ans :

(B) The knowledge-intensive services sector
A key factor contributing to jobless growth is that the majority of recent economic expansion is driven by the knowledge-intensive services sector. This sector, unlike the traditional industrial or manufacturing sectors, tends to be less labour-intensive. Its growth, therefore, does not generate a proportional number of jobs, particularly for the broader workforce, exacerbating unemployment.

May/June 2014

18. What is a suggested solution to counter jobless growth in India?
(A) Promoting labour-intensive industries like food processing and textiles
(B) Increasing reliance on the knowledge-intensive services sector for all growth
(C) Maintaining rigid labour laws to protect the jobs of existing employees
(D) Discouraging entrepreneurial instincts to focus on consolidating large industries

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Ans :

(A) Promoting labour-intensive industries like food processing and textiles
To address jobless growth, a critical solution is to actively promote industries that are inherently labour-intensive. Sectors such as food processing and textiles have the potential to create a large number of jobs. This strategy, combined with encouraging entrepreneurship through missions like Start-up India and reforming the education system, aims to align job creation with economic growth.

Oct/Nov 2007

19. The World Inequality Report (2022) states: 'In India, the top 10% of the population earns 57% of the national income, while the top 1% earns 22% of it. In comparison, the share of the bottom 50% has fallen to 13%.' Based on this excerpt, what percentage of the national income is earned by the top 1% of the population?
(A) 57%
(B) 22%
(C) 13%
(D) 12.54%

Ans :

(B) 22%
The provided text explicitly states the income distribution as per the World Inequality Report (2022). While the top 10% earn 57% of the national income, the question asks for the share of the "very elite top 1%". The text clarifies that this group earns 22% of the national income.

May/June 2025

20. According to the World Inequality Report (2022), what share of the national income is earned by the bottom 50% of India's population?
(A) 57%
(B) 22%
(C) 50%
(D) 13%

Ans :

(D) 13%
The World Inequality Report (2022) highlights severe income disparities in India. It states that the share of national income earned by the poorest 50% of the population has fallen to just 13%. This contrasts sharply with the 57% of national income earned by the top 10% of the population.

Oct/Nov 2011

21. An economic analyst observes that in India, a small fraction of the population has accumulated a vast portion of wealth, partly through inheritance and crony capitalism, especially since the 1991 reforms. Meanwhile, a large segment of the population struggles with low wages and poor access to essential services. This scenario directly reflects which major issue facing the Indian economy?
(A) Jobless Growth
(B) Rising Inequalities
(C) Excessive Pressure on Resources
(D) Pandemic Induced Slowdown

Ans :

(B) Rising Inequalities
The case describes a situation where the affluent are getting richer at a much faster rate while the poor struggle for basic necessities and living wages. This widening gap between the rich and poor, pronounced after the 1991 economic reforms and fueled by factors like crony capitalism, is the central characteristic of the issue of rising inequalities.

May/June 2009

22. According to Oxfam International, what percentage of the entire national wealth is controlled by the top 10% of the Indian population?
(A) 57%
(B) 77%
(C) 73%
(D) 22%

Ans :

(B) 77%
The data cited from Oxfam International focuses on wealth distribution rather than income. According to this data, the top 10% of the Indian population holds a staggering 77% of the total national wealth. This figure underscores the extreme concentration of wealth in the hands of a small segment of society, a key facet of inequality.

Oct/Nov 2024

23. In 2017, what percentage of the wealth generated in India was received by the wealthiest 1% of the population?

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(A) 1%
(B) 22%
(C) 57%
(D) 73%

Ans :

(D) 73%
The text provides a striking statistic for the year 2017 to illustrate the scale of rising inequality. In that single year, the wealthiest 1% of the population captured 73% of all new wealth generated. In stark contrast, the bottom half of the population, numbering around 67 million Indians, saw only a 1% increase.

May/June 2017

24. What has been the impact of the COVID-19 pandemic on inequality in India?
(A) It worsened educational gaps and amplified income inequality
(B) It reduced educational gaps and income inequality
(C) It had no significant impact on the labour market
(D) It led to a more even distribution of wealth

Ans :

(A) It worsened educational gaps and amplified income inequality
The COVID-19 pandemic had a negative and amplifying effect on existing inequalities. It worsened the gaps in education, created scars in the labour market through job losses and reduced opportunities, and further amplified income inequality. These factors have had a significant negative impact on the overall economy and social fabric, exacerbating the challenges for vulnerable groups.

Oct/Nov 2005

25. Which of the following is proposed as a measure to solve the issue of inequality in India?
(A) Implementing significant decreases in government spending on public healthcare and education
(B) Enacting new tax breaks for high-income individuals to theoretically stimulate investment
(C) Increasing government investment in free, high-quality public services
(D) Encouraging reduced corporate profit sharing with workers to help boost company savings

Ans :

(C) Increasing government investment in free, high-quality public services
To tackle inequality, a key proposed solution is for the government to increase its spending on essential public services like healthcare, education, and social welfare. Providing these services free of cost and at a high quality allows poorer individuals to save money they would otherwise spend, directly improving their financial situation and reducing the inequality gap.

May/June 2020

26. How can taxation be used as a tool to reduce income disparities?
(A) By taxing the rich more heavily to fund public services
(B) By providing uniform tax breaks for all corporations regardless of profit sharing
(C) By implementing a flat, uniform tax rate for all income levels
(D) By reducing taxes on luxury goods to spur high-end consumption

Ans :

(A) By taxing the rich more heavily to fund public services
A direct approach to reducing income disparities is through progressive taxation. This involves taxing the rich more heavily. The revenue generated from these higher taxes can then be utilized to fund public services for the wider population, creating a dual effect of reducing the disposable income at the top and improving welfare at the bottom.

Oct/Nov 2015

27. What is the primary definition of migration provided in the text?
(A) The temporary, seasonal movement of agricultural labour for harvesting purposes only
(B) The one-time, permanent relocation of individuals or families to a different country
(C) The involuntary and forced displacement of populations as a result of natural disasters
(D) The movement of people between locations to pursue better economic opportunities

Ans :

NODIA

According to data for the SDG India Index 2020-21, Bihar is shown with a score of 52, which places it in the 'Performer' category but at the lowest end among states. The score of 62 is incorrect for Bihar. The scores for Kerala (75), Tamil Nadu (74), and Chandigarh (79) are correctly represented.

May/June 2010

65. Consider the following statements regarding Green Bonds in India:

1. India started issuing green bonds in 2015.
2. The World Bank has also issued green bonds for projects in India.
3. Most green bonds issued since 2015 had maturities of less than 5 years.
4. Green bonds constituted 7.9% of all bonds issued since 2018.

Which of the statements given above are correct?

(A) 1 and 2 only
(B) 1, 2 and 4 only
(C) 3 and 4 only
(D) 1, 2, 3 and 4

Ans :

(A) 1 and 2 only
Statements 1 and 2 are correct. India did start issuing green bonds in 2015, and the World Bank is mentioned as an issuer for Indian projects. Statement 3 is incorrect; most bonds had maturities of 5 years or more. Statement 4 is also incorrect; green bonds constituted only 0.7% of all bonds issued since 2018.

Oct/Nov 2024

66. Which of the following is NOT one of the major challenges for countries in implementing the SDGs?

(A) Receiving approval from the World Bank for each goal
(B) Financing the implementation process
(C) Developing an appropriate administrative framework
(D) Enlisting stakeholder engagement

Ans :

(A) Receiving approval from the World Bank for each goal
The text identifies three major challenges for nations in implementing the SDGs: financing, stakeholder engagement, and developing an administrative framework. There is no mention of a requirement to receive approval from the World Bank for each goal. The SDGs are a UN-led agenda, and implementation is a sovereign responsibility, though development banks like the World Bank can be partners.

May/June 2017

67. Assertion (A): The RBI included the small renewable energy sector under its Priority Sector Lending (PSL) scheme.
Reason (R): Including renewable energy in PSL aims to increase the level of financial flows from the banking sector to sustainable development priorities.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is a factual statement. Reason (R) provides the correct rationale for this policy action. By designating renewable energy as a priority sector, the RBI mandates banks to direct a certain portion of their lending towards it, thereby increasing financial flows to this key area of sustainable development, which aligns with the definition of green financing.

Oct/Nov 2005

68. What was the penalty for a defaulting company for non-compliance with CSR provisions, as introduced in 2020?

(A) At least ₹2 lakhs
(B) At least ₹10 lakhs
(C) At least ₹50 lakhs
(D) At least ₹1 crore

Ans :

(D) At least ₹1 crore
The amendments made in 2020 replaced the provision of imprisonment with a system of monetary penalties for CSR non-compliance. For the defaulting company, the penalty was set at a minimum of ₹1 crore. For each defaulting officer, the penalty was a minimum of ₹2 lakhs, marking a significant financial deterrent.

May/June 2020

69. An excerpt on India's SDG performance states: 'India's total SDG score has increased from 60 to

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established local populations. They are even described as "extraordinary resource degraders," indicating that their consumption patterns can have a disproportionately detrimental effect on the local environment, including soil and water conservation.

May/June 2006

32. What factor is expected to worsen the migration issue in middle-income economies like India in the coming years?

(A) A projected decrease in the frequency of extreme environmental events
(B) Climate change-related migration flows
(C) The global stabilization of sea levels and predictable weather patterns
(D) The widespread promotion of stable and traditional agricultural practices

Ans :

(B) Climate change-related migration flows
The migration problem is projected to intensify, particularly in countries like India, due to the effects of climate change. Climate change is expected to increase both the frequency and the intensity of extreme environmental events such as droughts, floods, cyclones, and sea-level rise. This will likely lead to increased displacement and migration flows in the future.

Oct/Nov 2017

33. What is suggested as a beneficial step to manage the rising migration from rural to urban regions?

(A) Discouraging the formation of a new, upwardly mobile middle class
(B) Promoting agriculture and agri-businesses in rural areas
(C) Limiting access to better living standards and services in major cities
(D) Concentrating all new job opportunities exclusively within large urban settlements

Ans :

(B) Promoting agriculture and agri-businesses in rural areas
To address the trend of rural-to-urban migration, strengthening the rural economy is proposed as a key strategy. Promoting agriculture and related agri-businesses can create viable economic opportunities within rural areas. This approach aims to provide better livelihoods locally, which can help in reducing the economic pressures that push people to migrate to cities for work.

May/June 2008

34. What specific consideration is required when creating new non-farm sector jobs for the farm community?

(A) The opportunities should be created as near to their homes as possible
(B) The jobs should primarily be located in distant major metropolitan areas
(C) The jobs should require extensive daily commuting to typical urban settlements
(D) The focus should be exclusively on high-tech service sector roles requiring advanced degrees

Ans :

(A) The opportunities should be created as near to their homes as possible
A key aspect of the proposed remedy for migration is creating non-farm jobs for the agricultural community. A special consideration is that these new opportunities should be located as close to their homes as possible. This strategy aims to prevent the need for commuting to large urban areas, thereby avoiding the associated social hazards and disruptions.

NODIA

Oct/Nov 2013

35. What role can "Smart cities" potentially play in addressing migration issues?

(A) They are designed to be exclusive urban settlements with no economic link to rural areas
(B) Their primary purpose is to accelerate and centralize migration from all rural regions
(C) They can serve the objective of creating local opportunities for the farm community
(D) They focus only on technological infrastructure and have no role in sociocultural planning

Ans :

(C) They can serve the objective of creating local opportunities for the farm community
The concept of "Smart cities" is presented as a potential solution to serve the objective of creating localized employment. By developing urban-like settlements with modern amenities and job opportunities closer to rural areas, they can provide an alternative to migrating to traditional large cities, potentially mitigating the negative aspects of long-distance urban migration.

May/June 2015

36. How can regional cooperation help in managing migration?
(A) By restricting all cross-border movements and completely isolating national economies
(B) By increasing the economic and political factors that lead to forced migration
(C) By focusing solely on internal displacement and ignoring international diasporas
(D) By minimising the negative impacts while maintaining migration's integrity

Ans :

(D) By minimising the negative impacts while maintaining migration's integrity
Regional cooperation is presented as a constructive approach to managing migration. It can help to minimize the negative consequences of migration, such as brain drain or exploitation, while preserving its integrity and potential benefits. This involves collaboration on policies related to labour markets, education, and stability to manage migration flows effectively and humanely.

Oct/Nov 2012

37. What was unique about the COVID-19 pandemic in the context of the twenty-first century?
(A) It was a regional crisis that only affected a few developing economies
(B) It resulted in no significant supply-chain disruptions or inflationary pressures
(C) It was the first of its kind to hit the world in this century
(D) It had no significant or lasting effect on global employment levels

Ans :

(C) It was the first of its kind to hit the world in this century
The text describes the COVID-19 pandemic as a landmark event, being the first of its kind to impact the entire world during the twenty-first century. It hit all economies, although in varying degrees, causing widespread and unprecedented disruptions. Its global scale and multifaceted impact on health, society, and the economy were its defining features.

May/June 2010

38. What external event has further delayed the post-pandemic economic recovery momentum?
(A) A new global free trade agreement that boosted international commerce
(B) The Russia-Ukraine war
(C) A worldwide and sustained decline in commodity prices
(D) The formation of a new international economic bloc to promote stability

Ans :

(B) The Russia-Ukraine war
While economies were on a path to recovery from the pandemic, the momentum was delayed by the Russia-Ukraine war. The consequences of this conflict, including record-high commodity prices, a weaker global growth outlook, and tighter global financial conditions, have created new headwinds and challenges for the economic recovery process both in India and globally.

Oct/Nov 2020

39. According to the RBI's Report on Currency and Finance 2021-22, by which fiscal year is India expected to recover from the losses incurred due to COVID-19?
(A) 2025-26
(B) 2029-30
(C) 2039-40
(D) 2034-35

Ans :

(D) 2034-35
The RBI's Report on Currency and Finance for 2021-22 provides a long-term projection for economic recovery. According to this report, it will take India more than 13 years to fully recover from the economic losses caused by the COVID-19 pandemic. The timeline for this recovery is estimated to extend up to the fiscal year 2034-35.

May/June 2022

40. Assertion (A): The post-pandemic new normal may be very different from the pre-pandemic situation.
Reason (R): The pandemic has taken a significant toll on livelihoods and production capabilities, with far-reaching economic and social consequences.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
(C) (A) is true but (R) is false
(D) (A) is false but (R) is true

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Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
The assertion that the post-pandemic world will be different is directly supported by the reason provided. The pandemic caused deep and lasting damage to livelihoods and production capacities, leading to significant economic and social shifts. These profound changes are precisely why the "new normal" is expected to be structurally different from the pre-pandemic era.

Oct/Nov 2023

41. What is a key strategy mentioned that could speed up pattern growth and close the formal-informal gap in the economy?
(A) Reducing government capital expenditure and discouraging widespread digitalisation
(B) Discouraging private investment in start-ups and renewable energy sectors
(C) Sustained government capital expenditure and a drive towards digitalisation
(D) Increasing the formal-informal gap to boost the unorganized sector's flexibility

Ans :

(C) Sustained government capital expenditure and a drive towards digitalisation
To accelerate economic growth and bridge the gap between the formal and informal sectors, a combination of strategies is suggested. These include sustained government capital expenditure to build infrastructure, a strong push towards digitalisation across the economy, and encouraging fresh investments in emerging areas like e-commerce, start-ups, renewables, and supply chain logistics.

May/June 2018

42. What is the intended effect of the ambitious capital expenditure drive in the Union Budget for 2022-23?
(A) To increase productive capacity and crowd in private investment
(B) To decrease productive capacity and crowd out private investment
(C) To weaken aggregate demand and consumption in the country
(D) To reduce public investment in health and education infrastructure

Ans :

(A) To increase productive capacity and crowd in private investment
The Union Budget for 2022-23's focus on capital expenditure aims to provide critical support for sustained high growth. The intended mechanism is to increase the economy's overall productive capacity. This public investment is also expected to have a "crowding-in" effect, stimulating and encouraging private investment, and thereby strengthening aggregate demand in the country.

Oct/Nov 2014

43. Which two areas are identified as a priority for the development of world-class infrastructure in India?
(A) Entertainment complexes and hospitality chains
(B) Luxury housing projects and high-end retail malls
(C) Defence manufacturing and internal security systems
(D) Health and education

Ans :

(D) Health and education
While infrastructure development is needed across sectors, the text places a special emphasis on two critical areas. It states that most importantly, India needs to prioritize the development of world-class infrastructure in health and education. This focus is crucial for building human capital and ensuring long-term, inclusive, and sustainable economic growth and social well-being.

May/June 2023

44. Statement I: According to the Planning Commission's 2011-12 estimates, urban poverty was higher than rural poverty in India.
Statement II: A weak labour market and inadequate food supply are cited as reasons for higher poverty rates in rural areas.
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Ans :

(B) Only Statement II is correct.
Statement I is incorrect; the data shows rural poverty (25.7%) was higher than urban poverty (13.7%). Statement II is correct as the text

NODIA

(C) P-2, Q-3, R-4, S-1
(D) P-1, Q-4, R-3, S-2

Ans :

(A) P-2, Q-4, R-3, S-1
P (Jobless Growth) is correctly defined as economic growth without proportional job creation (2). Q (Rising Inequalities) is exemplified by the income distribution data from the World Inequality Report (4). R (Migration Pressure) is described by its negative environmental impact (3). S (Pandemic Impact) is characterized by its effect on social parameters like education and income gaps (1).

May/June 2013

70. A country's central bank observes that due to a major global health crisis, workforce participation has dropped, and supply chains are disrupted. To support the economy, it decides to increase the money supply and keep interest rates low for an extended period. This action is an example of what kind of policy response?
(A) A strict fiscal consolidation policy
(B) A prolonged easy monetary policy
(C) A contractionary fiscal policy
(D) A neutral monetary policy

Ans :

(B) A prolonged easy monetary policy
The scenario describes the actions of a central bank (monetary authority) in response to an economic crisis. The measures taken—increasing the money supply (easing liquidity) and keeping interest rates low—are the classic components of an easy or expansionary monetary policy. The text mentions that the RBI adopted such a policy to support the economy during the pandemic.

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(B) It was already in a phase of slowing economic activity.
(C) It was characterized by a stable and consistent growth rate.
(D) It was facing a liquidity crisis and tight monetary policy.

Ans :

(B) It was already in a phase of slowing economic activity.
The paragraph explicitly states, "Though economic activity was slowing prior to the pandemic...". This indicates that the economic slowdown was not solely a result of the pandemic but was an existing trend that was worsened by it. The pandemic exacerbated a pre-existing condition of decelerating economic activity, making the downturn more profound and widespread.

Oct/Nov 2019

49. An entrepreneur in India wants to start a new manufacturing business. She finds that the existing labour laws are very rigid, making it difficult to manage her workforce efficiently. As a result, she decides to invest heavily in automated machinery instead of hiring more workers, even though labour is abundant and cheap. This decision contributes to which economic problem?
(A) Rising inequalities
(B) Jobless growth
(C) Excessive migration
(D) Infrastructure bottlenecks

Ans :

(B) Jobless growth
This case illustrates a key cause of jobless growth. The entrepreneur's choice to opt for capital-intensive methods (automated machinery) over labour-intensive ones is a direct response to stringent labour laws. This behavior, when repeated across the economy, leads to economic expansion without a corresponding increase in employment, which is the definition of jobless growth.

May/June 2016

50. Which programme is specifically aimed at providing financial support and formalizing the businesses of street vendors, as mentioned in the list of poverty alleviation initiatives?
(A) Prime Minister Street Vendor's Atmanirbhar Nidhi – PM Svanidhi
(B) Jawahar Gram Samridhi Yojana (JGSY)
(C) Pradhan Mantri Jan Dhan Yojana (PMJDY)
(D) Integrated Rural Development Programme (IRDP)

Ans :

(A) Prime Minister Street Vendor's Atmanirbhar Nidhi – PM Svanidhi
Among the listed poverty alleviation programmes, PM Svanidhi (Prime Minister Street Vendor's Atmanirbhar Nidhi) is specifically designed to support street vendors. It aims to provide them with access to affordable working capital loans to restart their livelihoods, which were adversely affected by the pandemic, thereby promoting financial inclusion and formalization for this vulnerable group.

NODIA

Oct/Nov 2009

51. What is the relationship between 'crony capitalism' and 'rising inequalities' as suggested in the text?
(A) Crony capitalism helps in reducing inequality by fairly distributing national wealth.
(B) Crony capitalism is a regulated method to ensure fair access to resources for all.
(C) Crony capitalism is a factor through which the affluent have amassed wealth, contributing to inequality.
(D) There is no stated relationship between crony capitalism and the issue of inequality.

Ans :

(C) Crony capitalism is a factor through which the affluent have amassed wealth, contributing to inequality.
The text explicitly links crony capitalism to the problem of rising inequalities. It states that "The affluent have amassed a large portion of the wealth generated by crony capitalism and inheritance." This indicates that crony capitalism is seen as a mechanism that unfairly benefits a select few, allowing them to accumulate wealth and widen the gap.

May/June 2021

52. What is described as a 'devastating repercussion of environmental change on humanity'?
(A) Long-term economic growth
(B) Rapid technological innovation
(C) Systematic urban planning
(D) Migration

explicitly mentions that higher rural poverty rates are owing to factors like a lack of decent infrastructure, inadequate food supply, and a weak labour market, making it the accurate statement.

Oct/Nov 2006

45. A state government notices a significant movement of its rural population to a few large cities, leading to overburdened urban infrastructure and environmental issues. To counter this, the government decides to invest in food processing parks and textile hubs in smaller towns and large villages. This policy action is a direct remedy for which interconnected issues?

(A) Jobless growth and rising inequality
(B) Migration and excessive pressure on resources
(C) Pandemic slowdown and supply chain disruption
(D) Infrastructure bottlenecks and government debt

Ans :

(B) Migration and excessive pressure on resources
The case describes a classic scenario of rural-to-urban migration and its negative consequences. The government's response of creating non-farm jobs (food processing, textiles) in rural or semi-urban areas is a direct implementation of the remedy suggested in the text to counter this migration by providing local economic opportunities and reducing pressure on urban resources.

May/June 2011

46. Identify the incorrect statement regarding jobless growth in India.

(A) It is a phenomenon where the economy grows while employment stagnates or falls.
(B) It can be caused by a strong reliance on capital-intensive industries.
(C) The knowledge-intensive services sector is a major driver of recent economic growth.
(D) The employment growth rate has consistently outpaced the labour force growth rate.

Ans :

(D) The employment growth rate has consistently outpaced the labour force growth rate.
This statement is incorrect. The text explicitly states that for the period 2001-11, the labour force growth rate (2.23%) was higher than the employment growth rate (1.4%). This gap is a core characteristic of the jobless growth problem in India, meaning job creation has been lagging behind the number of people entering the workforce.

Oct/Nov 2025

47. Consider the following statements about inequality in India:

1. According to Oxfam, the top 10% of the population controls 77% of the national wealth.
2. The World Inequality Report (2022) states the bottom 50% of the population earns 22% of the national income.
3. Inequality has been steadily increasing and became especially pronounced after the 1991 economic reforms.

Which of the above statements is/are correct?

(A) 1 and 3 only
(B) 2 only
(C) 1, 2, and 3
(D) 1 and 2 only

Ans :

(A) 1 and 3 only
Statement 1 is correct as per the Oxfam data cited. Statement 3 is also correct, as the text explicitly notes the steady increase in inequality, especially post-1991 reforms. Statement 2 is incorrect; the World Inequality Report states the bottom 50% earn 13% of the national income, while the top 1% earn 22%.

May/June 2005

48. Read the following paragraph:
"The ongoing COVID-19 pandemic has triggered a long-term health crisis, both globally and in India. Though economic activity was slowing prior to the pandemic, successive COVID waves have resulted in a profound and widespread economic slowdown, with the potential for long-term repercussions. Fiscal (Government) authorities have responded, by implementing flexible fiscal policies, including greater support to vulnerable groups. Similarly, the RBI has eased liquidity provision and maintained a prolonged easy monetary policy."
What does the paragraph imply about the state of the Indian economy just before the pandemic?

(A) It was experiencing rapid and accelerating growth.

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(B) Reduced workforce participation
(C) An increase in workforce participation
(D) Threats from new virus variants

Ans :

(C) An increase in workforce participation
The text explicitly identifies "reduced workforce participation" as a risk to the domestic economy that surfaced due to the pandemic. An increase in workforce participation would be a positive development, not a risk. The other listed risks, including supply bottlenecks and threats from new virus variants, are correctly identified as challenges that emerged during this period.

May/June 2019

58. Consider the following statements related to the Indian economy:
1. The Indian economy contracted by 8.7% in FY21 according to NSO.
2. The World Bank projected an 8.7% growth for India in FY23.
3. The knowledge-intensive services sector has failed to drive economic growth.
4. The Russia-Ukraine war helped accelerate the post-pandemic economic recovery.

Which of the above statements is/are correct?
(A) 2 only
(B) 1 and 4 only
(C) 2 and 3 only
(D) 1, 2, 3 and 4

Ans :

(A) 2 only
Statement 2 is correct as per the World Bank's January 2022 report. Statement 1 is incorrect; the contraction was 6.6%. Statement 3 is incorrect; this sector is driving the majority of growth. Statement 4 is incorrect; the war delayed the recovery momentum due to high commodity prices and other global factors.

Oct/Nov 2016

59. What critical role does the collection and analysis of trustworthy data on demographics, migrations, and labour markets play?
(A) It is primarily used for restricting the movement of people across all borders.
(B) It serves the purpose of academic research with no direct policy implications.
(C) It is only useful for tracking diasporas for the purpose of organizing cultural events.
(D) It is critical for developing policies that assess the benefits and risks of migration.

Ans :

(D) It is critical for developing policies that assess the benefits and risks of migration.
The text emphasizes the importance of data in policy-making. The collection, analysis, and use of reliable data on various aspects of migration (demographics, cross-border movements, labour markets, etc.) are described as "critical." This data is essential for developing effective policies that can properly assess both the potential benefits and the inherent risks associated with migration.

May/June 2014

60. The Union Budget for 2022-23 announces a massive increase in spending on highways, ports, and digital infrastructure. An economist predicts this will not only boost government-led activity but also encourage private companies to invest in new factories and services, leading to higher overall growth. This prediction is based on which economic concept mentioned in the text?
(A) Crowding in private investment
(B) Minimising wealth disparity
(C) Reversing brain drain
(D) Creating sociocultural planning

Ans :

(A) Crowding in private investment
The case describes the intended effect of government capital expenditure. The economist's prediction that public investment in infrastructure will encourage private companies to invest aligns perfectly with the concept of "crowding in private investment." This is a key goal of the capital expenditure drive mentioned, aiming to stimulate a broader economic revival led by both public and private sectors.

Oct/Nov 2007

61. Read the following information:
"According to Oxfam International, the top 10% of the Indian population controls 77% of the entire national wealth. In 2017, the wealthiest 1%, received 73% of the wealth generated, while the bottom half of the population (67 million Indians) experienced only a 1% rise in their wealth."
What can be inferred from this data?
(A) Wealth generation in 2017 was distributed in an almost perfectly equal manner.
(B) The benefits of wealth creation are heavily

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Ans :

(D) Migration
The text frames migration in a very serious context, particularly when linked to environmental factors. It is explicitly described as "one of the most devastating repercussions of environmental change on humanity." This highlights the profound and disruptive impact that environmentally-driven displacement can have on people's lives, livelihoods, and overall human well-being on a large scale.

Oct/Nov 2010

53. Identify the correct pair based on the economic growth projections.
(A) IMF (FY24) - 6.8%
(B) World Bank (FY23) - 8.9%
(C) IMF (FY23) - 8.9%
(D) NSO (FY22) - 6.6%

Ans :

(C) IMF (FY23) - 8.9%
According to the IMF's April 2022 World Economic Outlook, the Indian economy was projected to grow by 8.9% in fiscal year 2022-23 (FY23). The other options are incorrect: the World Bank projected 8.7% for FY23, NSO estimated 8.7% growth for FY22 (not 6.6%), and the IMF projected 6.9% for FY24 (not 6.8%).

May/June 2007

54. Which of the following is NOT a proposed remedy to minimize the disparity in wealth and income?
(A) Taxing the rich more heavily to fund public services.
(B) Providing tax breaks for corporations that do not share profits with workers.
(C) Increasing government spending on R&D and innovation.
(D) Investing in free and high-quality public services like healthcare and education.

Ans :

(B) Providing tax breaks for corporations that do not share profits with workers.
The text suggests providing "Tax breaks for corporations that share more of their profits with their workers" as a way to minimize disparity. Therefore, providing tax breaks to companies that do not share profits would be counterproductive to this goal. The other options—taxing the rich, investing in public services, and R&D—are all mentioned as potential solutions.

Oct/Nov 2022

55. What is the primary reason that climate change is expected to increase migration flows in India?
(A) It will make agricultural conditions more stable and globally predictable.
(B) It will lead to the spontaneous creation of more non-farm jobs in rural areas.
(C) It will cause a uniform decrease in sea level, creating more habitable land.
(D) It is expected to increase the frequency and intensity of extreme environmental events.

Ans :

(D) It is expected to increase the frequency and intensity of extreme environmental events.
The text directly links climate change to increased migration. The mechanism for this is the expectation that climate change will lead to more frequent and more intense extreme environmental events. These events, such as droughts, floods, cyclones, and sea-level rise, destroy livelihoods and habitats, forcing people to migrate in search of safety and sustenance.

May/June 2012

56. What kind of planning is required when creating new opportunities near the homes of the farm community to avoid social hazards?
(A) A touch of sociocultural planning
(B) Financial and economic planning only
(C) Urban-centric architectural planning
(D) Exclusive top-down economic planning

Ans :

(A) A touch of sociocultural planning
The text suggests that simply creating jobs near rural homes is not enough. To avoid the "social hazards" associated with typical urban settlements, it specifies that "a touch of sociocultural planning is required." This implies a need to consider the social and cultural fabric of the community when developing these new settlements or job centers.

Oct/Nov 2018

57. The pandemic altered the economy's demand dynamics and introduced several risks to the domestic economy. Which of the following is NOT listed as one of these risks?
(A) Supply bottlenecks

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(A) A period of economic recession coupled with high job creation.
(B) A direct and proportional relationship between economic growth and employment.
(C) The phenomenon of jobless growth, where economic growth outpaces job creation.
(D) A scenario where the labour force is shrinking faster than jobs are being created.

Ans :

(C) The phenomenon of jobless growth, where economic growth outpaces job creation.
The provided data points all support the concept of jobless growth. The labour force grew faster than employment (2.23% vs 1.4%), and the overall economy grew much faster than employment (7% vs 1.8%). This significant and persistent gap between the rate of economic growth and the rate of employment growth is the defining characteristic of jobless growth.

May/June 2017

66. Which one of the following initiatives is aimed at encouraging entrepreneurial instincts as a solution to jobless growth?
(A) Start-up India Mission
(B) National Food Security Mission
(C) Pradhan Mantri Garib Kalyan Yojana (PMGKY)
(D) MGNREGA

Ans :

(A) Start-up India Mission
To counter jobless growth, one of the solutions proposed is to "encourage entrepreneurial instincts." The text specifically names the "Start-up India" mission as an example of a programme designed for this purpose. The goal is to foster a culture of innovation and self-employment, leading to the creation of new businesses that can, in turn, generate jobs.

Oct/Nov 2005

67. The cyclical slowdown that had commenced in India before the pandemic breakout was _____ by the epidemic.
(A) reversed
(B) unaffected
(C) worsened
(D) halted

Ans :

(C) worsened
The text clearly states that a cyclical slowdown was already underway in the Indian economy before the COVID-19 pandemic began. The subsequent epidemic did not reverse or halt this trend but rather "worsened" it. The pandemic acted as a major shock that exacerbated the pre-existing economic deceleration, leading to a more profound and widespread slowdown.

May/June 2020

68. Identify the incorrect pair regarding the distribution of national income as per the World Inequality Report (2022).
(A) Top 10% of population - Earns 57% of national income
(B) Top 1% of population - Earns 22% of national income
(C) Bottom 50% of population - Earns 13% of national income
(D) Top 10% of population - Earns 77% of national income

Ans :

(D) Top 10% of population - Earns 77% of national income
The World Inequality Report (2022) data pertains to income distribution. It states the top 10% earn 57% of national income. The figure of 77% is from the Oxfam International report and refers to the share of national wealth controlled by the top 10%, not income. Therefore, this pairing incorrectly mixes data sources and metrics.

Oct/Nov 2015

69. Match the economic issue in List-I with its description in List-II.
List-I (Economic Issue)
P. Jobless Growth
Q. Rising Inequalities
R. Migration Pressure
S. Pandemic Impact
List-II (Description)
1. Worsened educational gaps and amplified income disparity.
2. The economy grows while employment levels stagnate or fall.
3. In-migration leading to overexploitation of local natural resources.
4. Top 10% earn 57% of national income while the bottom 50% earn 13%.
(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3

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skewed towards the top.
(C) The bottom half of the population saw a significant and proportional rise in their wealth share.
(D) The concentration of national wealth among the top percentile is steadily decreasing over time.

Ans :

(B) The benefits of wealth creation are heavily skewed towards the top.
The data starkly illustrates that the gains from wealth generation are not shared broadly. The fact that the top 1% received 73% of new wealth while the bottom 50% received only 1% demonstrates a severe imbalance. This leads to the direct inference that the benefits of wealth creation are disproportionately captured by the wealthiest segment of society.

May/June 2025

62. Which of the following correctly identifies an issue and a corresponding remedy discussed in the chapter?
(A) Issue: Jobless Growth; Remedy: Promoting capital-intensive industries.
(B) Issue: Rising Inequalities; Remedy: Reducing income taxes on the rich.
(C) Issue: Pandemic Slowdown; Remedy: Tightening monetary policy and liquidity.
(D) Issue: Rural-Urban Migration; Remedy: Creating non-farm jobs near rural homes.

Ans :

(D) Issue: Rural-Urban Migration; Remedy: Creating non-farm jobs near rural homes.
The text directly proposes creating non-farm sector job opportunities as near to home as possible for the farm community as a remedy for the issue of rising migration from rural to urban areas. The other pairs are incorrect; promoting labour-intensive industries is the remedy for jobless growth, taxing the rich is for inequality, and an easy monetary policy was used for the slowdown.

Oct/Nov 2011

63. Assertion (A): Reforming labour laws is considered important for job creation in India.
Reason (R): Rigid labour laws can sometimes encourage businesses to pursue capital-intensive methods of production in a labour-abundant nation.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
(C) (A) is true but (R) is false
(D) (A) is false but (R) is true

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Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
The assertion that labour law reform is important is directly explained by the reason. The text states that rigid laws can disincentivize hiring, pushing businesses towards capital-intensive production (machinery) instead of labour. In a country with abundant labour, this choice exacerbates unemployment. Therefore, reforming these laws is seen as a way to encourage more hiring.

May/June 2009

64. What challenge arose from the lack of backward and forward linkages between agricultural, industrial, and service sectors?
(A) A rapid and unexpected increase in national employment
(B) A failure to create jobs
(C) A perfectly balanced and integrated pattern of economic growth
(D) A significant decrease in infrastructure bottlenecks across sectors

Ans :

(B) A failure to create jobs
The text identifies infrastructure bottlenecks as a cause for the poor integration between key economic sectors. This lack of backward and forward linkages, where one sector's output does not effectively become another's input, resulted in a "failure to create jobs." A well-integrated economy allows growth in one sector to stimulate employment in others, a mechanism that was weak.

Oct/Nov 2024

65. Consider the following data points from the chapter:
1. Labour force growth rate (2001-11): 2.23%
2. Employment growth rate (2001-11): 1.4%
3. Average annual economic growth rate (approx.): 7%
4. Corresponding employment growth rate: 1.8%

What do these data points collectively illustrate?

CHAPTER 12

Fundamentals of Economics, Microeconomics, & Macroeconomics & Types of Economics

May/June 2021

1. According to the text, the term 'economy' is derived from the Greek word 'oikonomia', which is a combination of 'oikos' and 'nemein'. What do these two words mean respectively?
(A) 'management' and 'home'
(B) 'home' and 'management and dispensation'
(C) 'dispensation' and 'household'
(D) 'household' and 'rules'

Ans :

(B) 'home' and 'management and dispensation'
The term 'economy' originates from the Greek word 'oikonomia'. This word is composed of two parts: 'oikos', which is translated as 'home', and 'nemein', which means 'management and dispensation'. Therefore, the original meaning of 'oikonomia' was associated with the concept of 'household management', reflecting the allocation of resources within a home.

Oct/Nov 2008

2. What is the central problem that the science of Economics seeks to address?
(A) The relationship between unlimited ends and scarce means with alternative uses.
(B) The unlimited nature of human wants and needs.
(C) The study of human behaviour in a social context.
(D) The equitable distribution of goods and services in a society.

Ans :

(A) The relationship between unlimited ends and scarce means with alternative uses.
Economics is defined as the science studying human behaviour concerning the relationship between ends, which are wants and needs, and scarce means, which are resources. The core economic problem arises because resources are insufficient to satisfy all wants and also have alternative uses, necessitating choices. In the absence of scarcity, there would be no economic problem.

May/June 2014

3. What is the fundamental role of Economics in organising a society?
(A) To ensure that all human wants, both present and future, are fully satisfied.
(B) To eliminate all market-based incentives and focus solely on centralized resource allocation.
(C) To recognise the fact of scarcity and devise methods for the most efficient use of resources.
(D) To promote international connectivity and global trade as the primary driver of domestic policy.

Ans :

(C) To recognise the fact of scarcity and devise methods for the most efficient use of resources.
The core of Economics is to first acknowledge the universal condition of scarcity, where available resources are insufficient to meet all needs and wants. Following this recognition, the discipline's primary objective is to figure out how society can be organised to ensure that these limited resources are utilized in the most efficient manner possible.

Oct/Nov 2025

4. Who is known as the father of modern Economics and what was his definition of the subject?
(A) Alfred Marshall, who defined it as a study of human welfare.
(B) Lionel Robbins, who defined it as a science of choice under scarcity.

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countries like England and the United States were severely affected by the Great Depression. With over a quarter of the American labour force unemployed, existing economic theories could not explain the prolonged downturn. Keynes's work offered an analysis of what causes such business cycles.

Oct/Nov 2020

22. Which of the following is an example of a topic studied in Macroeconomics?
(A) A firm's decision on how many workers to hire for a factory.
(B) The factors determining a nation's unemployment rate.
(C) A household's decision on how much income to save.
(D) The determination of the market price of wheat.

Ans :

(B) The factors determining a nation's unemployment rate.
Macroeconomics is concerned with the overall performance and structure of an entire economy. It studies aggregated indicators such as Gross Domestic Product (GDP), price indices (inflation), and national unemployment rates. In contrast, the decisions of individual households, firms, or the price of a single commodity are the domain of microeconomics.

May/June 2013

23. Consider the following statements regarding Microeconomics and Macroeconomics.
1. Microeconomics focuses on the actions of individual agents like firms and consumers.
2. Macroeconomics studies aggregated indicators such as GDP and inflation.
3. The two branches are completely separate and never converge.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 2 only
Statement 1 correctly defines the focus of microeconomics on individual entities. Statement 2 accurately describes the scope of macroeconomics, which deals with economy-wide phenomena. Statement 3 is incorrect; the two branches—microeconomics and macroeconomics—converge to form the core of modern economics, as aggregate outcomes depend on individual decisions.

Oct/Nov 2018

24. A macroeconomist would typically develop models to explain the relationship among which set of factors?
(A) National income, consumption, inflation, and investment.
(B) Price, demand, and supply for a single product.
(C) A single firm's cost, revenue, and profit.
(D) A consumer's utility, budget, and purchasing choices.

Ans :

(A) National income, consumption, inflation, and investment.
Macroeconomists create models to understand the functioning of the entire economy. These models explain the relationships between broad, aggregate variables such as national income, total output, overall consumption, unemployment levels, the general price level (inflation), savings, and total investment. These factors represent the performance of the economy as a whole, not individual parts.

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May/June 2011

25. Given the following statements:
Assertion (A): The insights of John Maynard Keynes, first developed in the 1930s, continue to define the study of macroeconomics today.
Reason (R): Modern macroeconomics still examines issues such as the causes of business cycles, the management of interest rates by central banks, and the reasons for differing national growth rates.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that Keynes's insights remain foundational is true. The reason provides the

or means. The ultimate goal of Economics, according to his welfare-centric definition, is to utilize this wealth to achieve the higher purpose of promoting human well-being and welfare in society.

May/June 2019

9. Lionel Robbins provided the "scarcity definition" of Economics. What does this definition state?

(A) Economics is the science focused on the principles of national wealth creation and its subsequent equitable distribution among citizens.

(B) Economics is the study of mankind in the ordinary business of life, with a primary focus on attaining material welfare.

(C) Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

(D) Economics is the study of aggregate policy tools used to achieve national goals like full employment and price stability.

Ans :

(C) Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

Lionel Robbins' definition, known as the "scarcity definition," is precise and widely accepted. It frames Economics as a science that studies human behaviour in the context of a fundamental conflict: the relationship between 'ends' (unlimited human wants) and 'scarce means' (limited resources), which can be put to various alternative uses, thus necessitating choice.

Oct/Nov 2011

10. In the context of Robbins' definition of Economics, what do the terms 'ends' and 'means' refer to?

(A) 'Ends' refer to wants, and 'means' refer to resources.

(B) 'Ends' refer to resources, and 'means' refer to wants.

(C) 'Ends' refer to production, and 'means' refer to consumption.

(D) 'Ends' refer to money, and 'means' refer to goods.

Ans :

(A) 'Ends' refer to wants, and 'means' refer to resources.

Within the framework of Lionel Robbins' scarcity definition, the term 'ends' signifies the unlimited wants and desires that human beings have. The term 'means' refers to the resources available to satisfy these wants. The core economic problem, as defined by Robbins, arises because the 'means' (resources) are scarce in relation to the 'ends' (wants).

May/June 2024

11. According to the analysis of Robbins' definition, which of the following is a key characteristic of human wants?

(A) They are always limited and can be easily satisfied.

(B) They are primarily related to basic needs like food and shelter.

(C) They diminish over time as a person's income increases.

(D) They are unlimited, and when one want is satisfied, another arises.

Ans :

(D) They are unlimited, and when one want is satisfied, another arises.

A fundamental premise of the scarcity definition is that human wants, referred to as 'ends', are unlimited. Economic activities are undertaken to satisfy these wants, which range from basic necessities to entertainment. The nature of wants is such that there is no point at which they are all fully satisfied; as soon as one is fulfilled, another emerges.

Oct/Nov 2005

12. Which statement accurately describes the concept of 'scarcity' in an economic sense?

(A) A commodity is scarce only if its absolute supply is zero.

(B) A commodity is scarce if its demand is greater than its supply, regardless of the stock size.

(C) A commodity with a small supply, like rotten eggs, is always considered scarce.

(D) A commodity with a huge stock, like coal, can never be considered scarce.

Ans :

(B) A commodity is scarce if its demand is greater than its supply, regardless of the stock size.

Scarcity in Economics is a relative concept, not an absolute one. It arises when the demand for

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(C) John Maynard Keynes, who defined it as the study of aggregate economic variables.
(D) Adam Smith, who defined it as a study of wealth.

Ans :

(D) Adam Smith, who defined it as a study of wealth.
Adam Smith is widely regarded as the father of modern Economics. In his seminal work, "An Enquiry into the Nature and Causes of the Wealth of Nations" (1776), he defined Economics as a study of wealth. According to his definition, the subject matter of Economics is focused on how wealth is produced and consumed by a nation.

May/June 2005

5. What was the primary criticism of Adam Smith's "wealth definition" of Economics?
(A) It was not scientific enough in its methodological approach.
(B) It failed to adequately consider the production aspect of national wealth.
(C) It was considered too materialistic, prioritising wealth over human welfare.
(D) It was too focused on the consumption habits of wealthy individuals.

Ans :

(C) It was considered too materialistic, prioritising wealth over human welfare.
The main criticism levelled against Adam Smith's definition was its excessive focus on wealth, making it seem too materialistic. Critics argued that it gave more importance to the creation and accumulation of wealth than to the well-being of the people for whose use that wealth is ultimately produced, thereby overlooking the human-centric purpose of economic activity.

Oct/Nov 2017

6. In his book "Principles of Economics" (1890), how did Prof. Alfred Marshall define Economics?
(A) As a science studying the relationship between scarce means and unlimited ends.
(B) As a study of man in the ordinary business of life, focusing on welfare.
(C) As an enquiry into the nature and causes of the wealth of nations.
(D) As a study of national income and aggregate employment levels.

Ans :

(B) As a study of man in the ordinary business of life, focusing on welfare.
Alfred Marshall provided a "welfare definition" of Economics. He described it as a study of mankind in the ordinary business of life, examining both the study of wealth and, more importantly, the study of man. He viewed wealth as a means to achieve the ultimate objective of promoting human well-being or welfare, thus shifting the focus from wealth to man.

May/June 2010

7. According to Marshall's definition, what is the ultimate purpose or objective of Economics?
(A) To maximize the production of material commodities.
(B) To ensure the perfectly equal distribution of wealth.
(C) To study the behaviour of individual firms and markets.
(D) To promote human well-being or welfare.

Ans :

(D) To promote human well-being or welfare.
In Alfred Marshall's view, wealth is not an end in itself but merely a means to an end. The ultimate purpose or objective of all economic activity, and therefore the study of Economics, is to promote and enhance human well-being or welfare. He conceptualized Economics as a science of human welfare, a significant departure from the wealth-centric view.

Oct/Nov 2022

8. Which of the following statements correctly identifies the relationship between 'wealth' and 'welfare' in Marshall's definition?
(A) Wealth is the means to achieve welfare, which is the ultimate objective.
(B) Wealth and welfare are identical and interchangeable concepts.
(C) Wealth is the ultimate goal, and welfare is an occasional byproduct.
(D) Welfare is a necessary means to achieve the accumulation of wealth.

Ans :

(A) Wealth is the means to achieve welfare, which is the ultimate objective.
Marshall's definition clearly distinguishes between wealth and welfare. He posited that wealth, which refers to any commodity providing satisfaction or utility, is merely the instrument

NODIA

deals with the economy as a whole, distinct from the individual-focused microeconomics.

May/June 2022

17. Which branch of economics is concerned with the behaviour of individual entities such as markets, firms, and households?
(A) Macroeconomics
(B) Microeconomics
(C) Econometrics
(D) Developmental Economics

Ans :

(B) Microeconomics
Microeconomics is the branch of economics that focuses on the study of individual economic agents and their interactions. It examines the decision-making processes of households and firms, how they allocate their limited resources, and how their actions influence supply, demand, and prices in specific markets for goods and services. Adam Smith is considered a pioneer in this field.

Oct/Nov 2015

18. In "The Wealth of Nations" (1776), Adam Smith's microeconomic analysis included inquiring into which of the following?
(A) The determination of prices of land, labour, and capital.
(B) The causes and consequences of the Great Depression.
(C) The determination of aggregate national income and output.
(D) The management of money and interest rates by central banks.

Ans :

(A) The determination of prices of land, labour, and capital.
In his foundational work, Adam Smith focused on microeconomic questions. He studied how individual prices are set in markets and investigated the factors that determine the prices of the factors of production: land, labour, and capital. He also analyzed the strengths and weaknesses of the market mechanism itself, highlighting the efficiency that arises from self-interested actions.

May/June 2017

19. The study of how prices are determined by the interaction of supply and demand for a specific good is a central topic in which field?
(A) Macroeconomics
(B) Public Finance
(C) Microeconomics
(D) International Economics

Ans :

(C) Microeconomics
Microeconomics examines how the decisions and behaviours of individual consumers and firms affect the supply and demand for goods and services. This interaction of supply and demand is what determines the prices in a market. Subsequently, these prices influence the future supply and demand decisions of those same economic agents, creating a dynamic feedback loop.

Oct/Nov 2009

20. Which economist's revolutionary book, published in 1936, is credited with establishing macroeconomics in its modern form?
(A) Adam Smith
(B) Alfred Marshall
(C) Lionel Robbins
(D) John Maynard Keynes

Ans :

(D) John Maynard Keynes
Macroeconomics as a distinct, modern field of study did not exist until John Maynard Keynes published his groundbreaking book, "General Theory of Employment, Interest and Money" in 1936. This work was a response to the Great Depression of the 1930s and provided a new framework for analyzing the economy as a whole.

May/June 2025

21. What was the major economic crisis that provided the context for the development of Keynesian macroeconomics?
(A) The Asian Financial Crisis of 1997.
(B) The Oil Crisis of the 1970s.
(C) The Great Depression of the 1930s.
(D) The Dot-com Bubble of 2000.

Ans :

(C) The Great Depression of the 1930s.
John Maynard Keynes developed his macroeconomic theories at a time when

NODIA

(D) With what resources will production take place?

Ans :

(A) Do high incomes go to teachers or athletes?
The question of whether high incomes go to teachers or athletes relates to the distribution of economic rewards, which is part of the "For whom are goods produced?" problem. The "How" question is concerned with the means of production: the specific resources, technology (e.g., people vs. robots), and individuals (e.g., who farms, who teaches) involved in the production process itself.

May/June 2016

31. An individual has Rs. 50 and must decide between buying a good pen for their studies or going for a movie for entertainment. This scenario is a practical illustration of which core economic principles?
(A) The problem of scarce means with alternative uses, which necessitates making a choice.
(B) The concept of unlimited wants existing alongside unlimited means of satisfaction.
(C) The economic gains derived from the division of labour and process specialization.
(D) The market equilibrium resulting from the law of supply and the law of demand.

Ans :

(A) The problem of scarce means with alternative uses, which necessitates making a choice.
This case perfectly illustrates the central tenets of Robbins' scarcity definition. The Rs. 50 represents a 'scarce mean' (limited resource). The options of buying a pen or a movie ticket represent the 'alternative uses' of that resource. Because the individual cannot do both, they are forced to 'make a choice', which is the essence of economic decision-making.

Oct/Nov 2023

32. A society decides to allocate more of its steel and engineering resources towards building new factories and machinery, and fewer resources towards manufacturing cars for personal use. This decision is an answer to the 'What to produce?' question, prioritizing what?
(A) Labour-intensive techniques over capital-intensive techniques.
(B) Investment goods over consumption goods.
(C) Present consumption over future consumption.
(D) Equitable distribution over economic efficiency.

Ans :

(B) Investment goods over consumption goods.
This scenario addresses the "what to produce" dilemma. By choosing to produce factories and machinery (investment goods) instead of cars (consumption goods), the society is prioritizing future production capacity over immediate consumption. This trade-off is a critical economic decision that affects long-term growth and prosperity, as investment goods will boost future production.

May/June 2009

33. Read the following source and answer the question:
"Microeconomics is a branch of economics that studies how households and firms make decisions to allocate limited resources, typically in markets where goods or services are being bought and sold. Microeconomics examines how these decisions and behaviours affect the supply and demand for goods and services, which determines prices..."
Based on the source, what is the ultimate outcome of the decisions and behaviours studied by microeconomics?
(A) The determination of national unemployment rates.
(B) The determination of prices through supply and demand.
(C) The formulation of government fiscal policy.
(D) The causes of international financial crises.

Ans :

(B) The determination of prices through supply and demand.
The provided text explicitly states that microeconomics studies the decisions of households and firms regarding resource allocation. It then clarifies that these decisions and behaviors directly affect the supply and demand for goods and services. The text concludes that this interaction of supply and demand is what ultimately "determines prices" in the market.

Oct/Nov 2016

34. Read the following source and answer the question:
"Macroeconomics did not exist in its modern

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evidence for this by listing the core questions that modern macroeconomics, which evolved from Keynes's work, continues to address. These issues, like business cycles, monetary policy, and growth, were central to Keynes's initial analysis and remain the defining topics of the field today.

Oct/Nov 2024

26. What are the three fundamental economic problems that every human society must confront and resolve?
(A) Scarcity, choice, and opportunity cost.
(B) What to produce, how to produce, and for whom to produce.
(C) Production, consumption, and distribution.
(D) Inflation, unemployment, and economic growth.

Ans :

(B) What to produce, how to produce, and for whom to produce.
Regardless of its level of development or political structure, every society must answer three fundamental questions of economic organisation. These are: 'what' commodities to produce and in what quantities; 'how' to produce them, using which resources and techniques; and 'for whom' the produced goods and services are ultimately intended, determining the distribution of economic output.

May/June 2006

27. The economic question "Will we use scarce resources to produce many consumption goods (like pizzas) or more investment goods (like pizza-making machines)?" relates to which fundamental problem?
(A) How are goods produced?
(B) For whom are goods produced?
(C) When are goods produced?
(D) What commodities are produced and in what quantities?

Ans :

(D) What commodities are produced and in what quantities?
This question is a classic example of the 'what to produce' problem. It involves a society making a choice between producing goods for immediate consumption (pizzas) and producing capital or investment goods (pizza-making machines). The latter choice reduces current consumption but boosts the capacity for future production and consumption, highlighting the trade-offs involved in this fundamental decision.

Oct/Nov 2014

28. The question "Is electricity generated from oil, from coal or from the sun?" is an example of which fundamental economic problem?
(A) How to produce?
(B) What to produce?
(C) For whom to produce?
(D) When to produce?

Ans :

(A) How to produce?
This question directly addresses the 'how' problem of economic organisation. It concerns the choice of resources and production techniques. A society must decide which methods and inputs to use for production. The decision between using fossil fuels like oil and coal versus a renewable source like the sun is a clear example of choosing a production technique.

May/June 2020

29. The fundamental economic question of "For whom are goods produced?" is primarily concerned with what?
(A) The production techniques used by factories.
(B) The choice between producing consumer goods and capital goods.
(C) The distribution of income and wealth among different households.
(D) The geographical location where goods are manufactured.

Ans :

(C) The distribution of income and wealth among different households.
The "for whom" question deals with the distribution of the economic pie. It asks who gets to consume the goods and services produced by the society. This is fundamentally a question about how the national product is divided among different individuals and groups, which in turn depends on the distribution of income and wealth in that society.

Oct/Nov 2007

30. Which of the following is NOT an aspect of the "How are goods produced?" question?
(A) Do high incomes go to teachers or athletes?
(B) Who will do the production?
(C) Will factories be run by people or robots?

NODIA

(C) By using techniques that employ the maximum number of workers.
(D) By using methods specified by an industrial regulation board.

Ans :

(A) By using techniques of production that are the least costly.
To maximize profits, firms in a market economy have a strong incentive to be efficient. This means they will choose the production techniques that allow them to produce their chosen goods and services at the lowest possible cost. This competitive pressure for cost-minimization is a key feature that answers the 'how' question in a market system.

May/June 2015

39. In a market economy, what determines the answer to the 'for whom' question?
(A) The government's decision on equitable distribution of goods.
(B) An equal share of the national output for every citizen.
(C) Individuals' decisions on how to spend wages and property incomes.
(D) The allocation of ration cards by a public distribution authority.

Ans :

(C) Individuals' decisions on how to spend wages and property incomes.
The 'for whom' question in a market economy is resolved based on purchasing power. An individual's consumption is determined by the income they earn from their labour (wages) and ownership of property (property incomes). How they choose to spend this income in the marketplace dictates what share of the economic output they get to consume.

Oct/Nov 2012

40. What is a 'laissez-faire' economy?
(A) The extreme case of a market economy where the government does not interfere in economic decisions.
(B) An economy where the government makes all economic decisions.
(C) A traditional economy based on barter and subsistence agriculture.
(D) An economy that is a perfect balance of market and command elements.

Ans :

(A) The extreme case of a market economy where the government does not interfere in economic decisions.
A 'laissez-faire' economy represents the purest form of a market economy. The term, which is French for 'allow to do', signifies a system in which the government's role is minimal, and it refrains from interfering in the economic decisions of individuals and private firms. Most economic questions are settled entirely by the market mechanism.

May/June 2007

41. Which of the following is a defining characteristic of a command economy?
(A) Individuals and private firms make the major decisions about production and distribution.
(B) A system of prices and profits determines the allocation of resources.
(C) It is also known by the alternative name of a laissez-faire economy.
(D) The government makes all important decisions about production and distribution.

Ans :

(D) The government makes all important decisions about production and distribution.
In a command economy, also known as a socialistic economy, the central government holds the authority over economic life. It decides what to produce, how to produce it, and how the output should be distributed among the population. This is in direct contrast to a market economy where these decisions are decentralized.

Oct/Nov 2021

42. In a command economy like the one in the former Soviet Union, what role did the government typically play?
(A) It only regulated the market to ensure fair competition among various private firms.
(B) It owned most means of production, directed national enterprises, and employed most of the workforce.
(C) It provided a basic social safety net for citizens but allowed most markets to function freely.
(D) It focused only on international trade policy, leaving domestic production entirely to private firms.

Ans :

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form, until 1936, when John Maynard Keynes published his revolutionary book titled General Theory of Employment, Interest and Money. At that time, England and the United States were still stuck in the Great Depression of the 1930s..." What can be inferred from this passage?

(A) The development of modern macroeconomics was a response to a major economic crisis.
(B) Macroeconomics was developed to explain periods of economic stability.
(C) Adam Smith was the primary founder of macroeconomics.
(D) Keynes's book focused primarily on individual market prices.

Ans :

(A) The development of modern macroeconomics was a response to a major economic crisis.
The passage directly links the publication of Keynes's foundational book in 1936 to the ongoing Great Depression in England and the United States. This implies that the existing economic theories were inadequate for explaining such a severe and prolonged downturn, and modern macroeconomics emerged as a direct intellectual response to this real-world economic crisis.

May/June 2023

35. What are the two fundamentally different ways of organizing an economy to answer the three central questions?

(A) Democratic and authoritarian systems.
(B) Agricultural and industrial systems.
(C) Government command and decisions made in markets.
(D) Domestic and internationally-focused systems.

Ans :

(C) Government command and decisions made in markets.
The text distinguishes between two principal methods for allocating a society's scarce resources. At one extreme, the government makes most economic decisions through a hierarchical command structure. At the other extreme, decisions are made in decentralized markets where individuals and firms voluntarily exchange goods and services, guided by prices and self-interest.

NODIA

Oct/Nov 2010

36. In a market economy, what primarily determines the answers to the questions of 'what', 'how', and 'for whom'?

(A) The cultural traditions and customs passed down through generations.
(B) A system of prices, markets, profits, losses, incentives, and rewards.
(C) The directives of a central planning authority.
(D) The decisions of a small group of powerful individuals at the top.

Ans :

(B) A system of prices, markets, profits, losses, incentives, and rewards.
A market economy, or capitalistic economy, relies on a decentralized system to make economic decisions. The interplay of prices, the functioning of markets, the pursuit of profits and avoidance of losses, and the structure of incentives and rewards collectively determine what is produced, how it is produced, and who gets to consume it.

May/June 2018

37. In a market economy, how is the 'what' question (what to produce) answered?

(A) By government mandate based on a five-year plan.
(B) By producing goods that are considered essential by social planners.
(C) By producing an equal amount of all possible goods.
(D) By firms producing the commodities that yield the highest profits.

Ans :

(D) By firms producing the commodities that yield the highest profits.
In a market system, the profit motive is the primary driver for production decisions. Private firms will choose to produce those goods and services for which consumer demand is high enough to allow for a price that exceeds the cost of production. Therefore, commodities that yield the highest profits are the ones that get produced.

Oct/Nov 2006

38. How is the 'how' question (how to produce) typically answered in a capitalistic economy?

(A) By using techniques of production that are the least costly.
(B) By using the most traditional production methods available.

a resource or commodity exceeds its available supply. For instance, rotten eggs are not scarce because there is no demand for them. Conversely, commodities like wheat or coal can be scarce despite large stocks if the demand for them is even greater.

May/June 2012

13. Which of the following is NOT a component of the economic problem as analyzed from Robbins' definition?
(A) Wants are unlimited.
(B) The means to satisfy wants are limited.
(C) All resources can only be put to a single, specific use.
(D) Resources have alternative uses.

Ans :

(C) All resources can only be put to a single, specific use.
The economic problem is defined by a combination of factors. These include unlimited wants, limited resources (scarce means), and the fact that these resources have alternative uses. If a scarce resource could only be put to one use, no economic problem of choice would arise concerning its allocation. The existence of alternative uses necessitates a decision-making process.

Oct/Nov 2019

14. The fact that a piece of land can be used for cultivating paddy, sugarcane, or wheat illustrates which key economic concept?
(A) The unlimited nature of human wants
(B) The multiplicity of available resources
(C) The law of supply and market demand
(D) Alternative uses of scarce means

Ans :

(D) Alternative uses of scarce means
This example demonstrates that scarce resources are not only limited but also capable of being used in various ways. The piece of land (a scarce resource) has alternative applications: growing paddy, sugarcane, or wheat. This characteristic forces the owner to make a choice about how to best allocate the land, which is a central theme in Economics.

May/June 2008

15. Why is Economics also referred to as a "science of choice"?
(A) Because every individual must choose which wants to satisfy now and which to postpone due to limited resources.
(B) Because it provides a wide variety of goods and services to choose from.
(C) Because economists must choose which economic theories to apply in a given situation.
(D) Because it primarily studies the electoral choices made by governments in policy-making.

Ans :

(A) Because every individual must choose which wants to satisfy now and which to postpone due to limited resources.
Economics is called a science of choice because of the fundamental conflict between unlimited wants and scarce resources with alternative uses. Since we cannot satisfy all our wants simultaneously, individuals and societies must constantly make choices. They must decide which wants to fulfill immediately and which to defer, allocating their limited resources accordingly.

Oct/Nov 2013

16. Match the economist (List-I) with their primary contribution or definition (List-II).
List-I
P. Adam Smith
Q. Alfred Marshall
R. Lionel Robbins
S. John Maynard Keynes
List-II
1. Scarcity Definition
2. Welfare Definition
3. Wealth Definition
4. Modern Macroeconomics
(A) P-3, Q-2, R-1, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-2, R-1, S-4
Adam Smith is associated with the "Wealth Definition" of economics. Alfred Marshall shifted the focus with his "Welfare Definition". Lionel Robbins provided the widely accepted "Scarcity Definition" based on choice. John Maynard Keynes is credited with developing the foundations of modern macroeconomics, which

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(B) It owned most means of production, directed national enterprises, and employed most of the workforce.
In a classic command economy, the government's role is pervasive. It typically owns the key means of production like land and capital. Furthermore, it directs the operations of most industries, acts as the primary employer for the workforce, and centrally dictates how jobs are to be performed and how the final output is divided.

May/June 2012

43. How does a command economy address the major economic questions of 'what, how, and for whom'?
(A) Through the interaction of supply and demand in free markets.
(B) By following historical precedent and long-standing tradition.
(C) By virtue of its ownership of resources and its power to enforce decisions.
(D) By allowing private firms to freely pursue profit maximization.

Ans :

(C) By virtue of its ownership of resources and its power to enforce decisions.
A command economy resolves the fundamental economic problems through central authority. The government's power stems from two sources: its direct ownership of most productive resources (land, capital) and its legal and administrative power to enforce its economic plans and decisions throughout the society. This replaces the market mechanism entirely for major economic questions.

Oct/Nov 2014

44. What type of economy do most contemporary societies operate as?
(A) Mixed economies
(B) Pure market economies
(C) Pure command economies
(D) Traditional economies

Ans :

(A) Mixed economies
The text states that no contemporary society falls completely into the extreme categories of pure market or pure command. Instead, all modern societies are mixed economies. They incorporate elements of both market mechanisms and government intervention. The specific blend of market and command elements varies from one country to another, but the mix is universal.

May/June 2019

45. Which of the following statements about mixed economies is INCORRECT?
(A) They contain elements of both market mechanisms and government command-style intervention.
(B) A 100% market economy has never existed, though nineteenth-century England is considered a close historical example.
(C) In a mixed economy like the United States, the government plays no important role in economic life.
(D) India has been a mixed economy since the beginning of its formal economic planning process after independence.

Ans :

(C) In a mixed economy like the United States, the government plays no important role in economic life.
This statement is incorrect. While the United States is a predominantly market-based economy, the text explicitly mentions that the government plays an important role. This role includes overseeing market functions, passing laws to regulate economic life, producing certain goods and services, and implementing policies to control externalities like pollution, making it a mixed economy.

Oct/Nov 2006

46. From the beginning of its economic planning, what has been the characteristic of the Indian economy?
(A) A pure capitalistic economy with no public sector involvement.
(B) A mixed economy where public, private, and joint sectors coexist and complement each other.
(C) A pure command economy with no significant private sector.
(D) A laissez-faire economy with minimal government regulation of industry.

Ans :

(B) A mixed economy where public, private, and joint sectors coexist and complement each other.
The text specifically identifies India's economic model since the start of its planning process. It is characterized as a mixed economy. This structure

as a means to the more important end of human welfare.

May/June 2020

63. Identify the correct statement regarding the evolution of economic systems.
(A) All modern societies operate as pure command economies.
(B) Nineteenth-century England is cited as an example of a pure command economy.
(C) All societies today are mixed economies, containing elements of both market and command systems.
(D) The United States is an example of a pure laissez-faire economy with no government intervention.

Ans :

(C) All societies today are mixed economies, containing elements of both market and command systems.
The text explicitly states that no contemporary society falls completely into the polar categories of pure market or pure command. Instead, "all societies are mixed economies, with elements of both." While the mix varies, some blend of market freedom and government regulation is present in all modern nations, including the United States.

Oct/Nov 2015

64. The analysis of what causes business cycles, with alternating spells of high unemployment and high inflation, is a primary concern of which branch of economics?
(A) Macroeconomics
(B) Microeconomics
(C) Normative Economics
(D) Agricultural Economics

Ans :

(A) Macroeconomics
The study of business cycles—the economy-wide fluctuations in output, employment, and prices—is a central topic in macroeconomics. This line of inquiry was pioneered by John Maynard Keynes in his analysis of the Great Depression. Macroeconomists seek to understand the causes of these cycles and devise policies to mitigate their negative effects, such as high unemployment or inflation.

May/June 2013

65. Consider the two statements below:
Statement I: In Lionel Robbins' definition, 'ends' refer to unlimited human wants.
Statement II: In Lionel Robbins' definition, 'means' refer to scarce resources with alternative uses.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, and Statement II is incorrect.
(D) Statement I is incorrect, and Statement II is correct.

Ans :

(A) Both Statement I and Statement II are correct.
Both statements accurately represent the core components of Lionel Robbins' scarcity definition of economics. The fundamental economic problem is framed as a relationship between 'ends', which are the boundless wants of human beings, and 'means', which are the limited resources available to satisfy them. The fact that these means also have alternative uses is crucial.

Oct/Nov 2021

66. The concept that economic benefit can come from the self-interested actions of individuals was a key insight of which economist?
(A) John Maynard Keynes in his theory of aggregate demand.
(B) Adam Smith in his analysis of the market mechanism.
(C) Alfred Marshall in his definition of welfare economics.
(D) Lionel Robbins in his scarcity definition of economics.

Ans :

(B) Adam Smith in his analysis of the market mechanism.
In "The Wealth of Nations," Adam Smith identified the remarkable efficiency of markets. A key insight of his was that when individuals act in their own self-interest—firms seeking profit and consumers seeking value—the collective outcome is often a benefit to the economy as a whole. This is often referred to as the concept of the "invisible hand."

May/June 2024

67. Which of the following chronologically orders the publication of the influential books mentioned in the chapter?

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May/June 2018

51. A country's government decides to nationalize its major industries, including steel, energy, and transportation. It sets up a central planning committee to determine production targets, resource allocation, and wage rates for all workers in these industries. This country is moving towards which type of economic system?
(A) A laissez-faire economy
(B) A market economy
(C) A traditional economy
(D) A command economy

Ans :

(D) A command economy
The actions described in the case are hallmarks of a command economy. The government is taking ownership of the means of production (nationalization) and is making all important decisions about production and distribution through a central authority. This replaces the market mechanism of prices and profits with government directives, which is the defining feature of a command system.

Oct/Nov 2016

52. In a small town, a new technology is developed that allows factories to be run entirely by robots, significantly reducing the need for human labour but also lowering production costs. The decision by factory owners to adopt this technology is an answer to which fundamental economic question?
(A) What to produce?
(B) How to produce?
(C) For whom to produce?
(D) Why to produce?

Ans :

(B) How to produce?
This scenario directly relates to the 'how' question of production. The choice between using human labour and using robots is a decision about the production technique or technology. By opting for robots to lower costs, the factory owners are choosing a specific method of production, which is a core component of the 'how' to produce problem.

May/June 2014

53. An entrepreneur observes a high demand for high-quality shirts and decides to start a business to manufacture them, aiming to sell them at a price that covers costs and generates a significant profit. This entrepreneur's actions are a characteristic feature of which economic system?
(A) A command economy
(B) A traditional economy
(C) A market economy
(D) A closed economy

Ans :

(C) A market economy
This case illustrates the core mechanics of a market economy. The entrepreneur's decision is driven by market signals (high demand) and the profit motive. They are independently deciding 'what' to produce based on potential profitability, rather than a government directive. This individual initiative to meet market needs for profit is central to how a market or capitalistic economy functions.

Oct/Nov 2007

54. Which of the following statements is correct regarding the scope of Microeconomics and Macroeconomics?
(A) Microeconomics studies inflation and unemployment, while Macroeconomics studies individual firm pricing.
(B) Microeconomics and Macroeconomics are identical fields of study with different names.
(C) Microeconomics focuses on international trade, while Macroeconomics focuses on domestic markets.
(D) Microeconomics studies the behaviour of individual entities, while Macroeconomics studies the overall performance of the economy.

Ans :

(D) Microeconomics studies the behaviour of individual entities, while Macroeconomics studies the overall performance of the economy.
This statement accurately summarizes the distinction between the two major branches of economics. Microeconomics has a narrow focus on the components of the economy, such as households, firms, and specific markets. In contrast, Macroeconomics takes a broad, aggregate view, analyzing the performance, structure, and behavior of the national or regional economy as a whole.

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is defined by the coexistence and complementary roles of the public sector (government-owned enterprises), the private sector (privately-owned firms), and the joint sector (partnerships between government and private entities).

May/June 2021

47. Consider the following statements:
1. Economics is the science that deals with production, allocation, and use of goods and services.
2. Microeconomics is concerned with the behaviour of individual entities like firms and households.
3. Macroeconomics views the performance of the economy as a whole.

Which of the statements given above are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
All three statements are correct summaries of the core concepts presented. Statement 1 provides a broad definition of economics. Statement 2 accurately defines the focus of microeconomics on individual economic units. Statement 3 correctly describes the aggregate, economy-wide perspective of macroeconomics. Together, they encapsulate the fundamental distinctions and definitions discussed in the chapter.

Oct/Nov 2010

48. Identify the incorrect pair from the following options:
(A) Laissez-faire Economy - Extreme case of a Command Economy
(B) Market Economy - Also known as Capitalistic Economy
(C) Command Economy - Government addresses major economic questions
(D) Mixed Economy - Elements of both market and command economies

Ans :

(A) Laissez-faire Economy - Extreme case of a Command Economy
This pair is incorrect. A laissez-faire economy is the extreme case of a market economy, characterized by the absence of government intervention. A command economy is the opposite, where the government controls all major economic decisions. The other pairs are correctly matched according to the definitions provided in the text.

May/June 2005

49. Which of the following best describes the progression of economic thought from Smith to Marshall to Robbins?
(A) From scarcity to welfare to wealth.
(B) From welfare to scarcity to wealth.
(C) From wealth to welfare to scarcity.
(D) From scarcity to wealth to welfare.

Ans :

(C) From wealth to welfare to scarcity.
The historical progression of dominant economic definitions moved from Adam Smith's focus on wealth creation (Wealth Definition) to Alfred Marshall's emphasis on human well-being as the purpose of economic activity (Welfare Definition). Finally, Lionel Robbins provided a more precise and analytical definition based on the universal problem of choice under conditions of scarcity (Scarcity Definition).

Oct/Nov 2022

50. Which of the following questions falls outside the scope of the three fundamental questions of economic organisation?
(A) How can a society ensure its political leaders are elected democratically?
(B) Should a society produce more computers or more food?
(C) Should production be carried out by large corporations or small family businesses?
(D) Should the national income be distributed more towards the poor or the rich?

Ans :

(A) How can a society ensure its political leaders are elected democratically?
The three fundamental economic questions are 'what' to produce, 'how' to produce, and 'for whom' to produce. The question about democratic elections is a matter of political science and governance, not a question of economic organisation. The other options directly relate to the 'what', 'how', and 'for whom' problems respectively, dealing with resource allocation and distribution.

NODIA

May/June 2010

59. Read the following source and answer the question:
"India, right from the beginning of its economic planning, has been a mixed economy where public sector, private sector and joint sector coexist and complement each other."
According to this statement, which of the following accurately describes the structure of the Indian economy?
(A) It is dominated exclusively by government-owned enterprises.
(B) It is a pure market system driven only by the private sector.
(C) It consists of a single, unified sector for all economic activities.
(D) It features a blend of government, private, and collaborative enterprises.

Ans :

(D) It features a blend of government, private, and collaborative enterprises.
The source clearly describes the Indian economy as a "mixed economy." It specifies that this mix is composed of three distinct but coexisting parts: the public sector (government), the private sector (private firms), and the joint sector (collaborations). This indicates a structure that is not purely state-run or purely market-driven but a blend of different ownership models.

Oct/Nov 2024

60. Match the economic concept (List-I) with its corresponding example or description (List-II).
List-I
P. What to produce
Q. How to produce
R. For whom to produce
S. Scarcity
List-II
1. Choosing between using human labor or automation.
2. The fact that demand for coal is greater than its supply.
3. Deciding between making more shirts or more pizzas.
4. The division of national product among different households.
(A) P-1, Q-3, R-2, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-2, R-3, S-1

Ans :

(B) P-3, Q-1, R-4, S-2
'What to produce' (P) is about choosing between different goods, like shirts or pizzas (3). 'How to produce' (Q) concerns the method, such as labor vs. automation (1). 'For whom to produce' (R) deals with distribution among households (4). 'Scarcity' (S) is defined by demand exceeding supply, as with coal (2).

May/June 2017

61. Which of the following is NOT a characteristic of a market economy?
(A) Major decisions are made by individuals and private firms.
(B) A system of profits and losses guides production decisions.
(C) Consumption is determined by individuals' spending of their wages and property incomes.
(D) The government is the employer of most workers and tells them how to do their jobs.

Ans :

(D) The government is the employer of most workers and tells them how to do their jobs.
The statement that the government is the primary employer and directs workers is a defining feature of a command economy, not a market economy. In a market system, private firms are the main employers, and decisions about jobs are made based on market conditions, not central government directives. The other options are all characteristics of a market economy.

Oct/Nov 2005

62. The definition of Economics as 'a study of man in the ordinary business of life' was given by whom?
(A) Adam Smith
(B) Lionel Robbins
(C) Prof. Alfred Marshall
(D) John Maynard Keynes

Ans :

(C) Prof. Alfred Marshall
This phrase is the cornerstone of Alfred Marshall's "welfare definition" of Economics. He sought to move the focus away from a purely materialistic study of wealth and towards an examination of how economic activities impact the well-being and daily life of human beings. He saw wealth

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substitutes brand 'A' coffee with brand 'B' coffee in direct response to the former's price increase, seeking a more affordable alternative to satisfy the same need.

Oct/Nov 2011

9. What happens to a consumer's real income when the price of a good they regularly purchase, like petrol, doubles?
(A) Their real income effectively increases due to other market adjustments.
(B) Their real income remains unchanged as it is not affected by individual prices.
(C) Their real income effectively decreases, reducing their purchasing power.
(D) Their nominal income, or the face value of their money, decreases.

Ans :

(C) Their real income effectively decreases, reducing their purchasing power.
The income effect describes how a price change impacts a consumer's purchasing power. When the price of a regularly consumed good like petrol doubles, the consumer's real income effectively decreases because their existing money can now buy less. This reduction in purchasing power will naturally lead them to curb their consumption of that good and others.

May/June 2025

10. How is the market demand curve derived?
(A) By summing the quantities demanded by all individuals at each price point.
(B) By calculating the average quantity demanded across all consumers at each price point.
(C) By identifying a single representative consumer and using their demand as a proxy for the entire market.
(D) By taking one individual's demand curve and multiplying it by the total market population.

Ans :

(A) By summing the quantities demanded by all individuals at each price point.
The market demand curve is not based on a single individual but represents the entire market. It is constructed by horizontally summing the quantities demanded by every individual consumer at each possible price. This aggregate demand is what is observable in the real world and is the focus of market analysis, rather than individual preferences alone.

Oct/Nov 2007

11. The market demand curve also obeys the law of downward-sloping demand. What is one reason for this, as new customers enter the market?
(A) The income effect, as lower prices increase the real income of all potential buyers.
(B) The law of diminishing marginal utility, as new buyers experience less satisfaction.
(C) The Giffen paradox, where lower prices paradoxically attract more buyers.
(D) The substitution effect, as a lower price attracts new customers from alternatives.

Ans :

(D) The substitution effect, as a lower price attracts new customers from alternatives.
As the price of a good drops, it becomes attractive to a new set of customers who previously found it too expensive or preferred other alternatives. These new customers entering the market are drawn in by the lower price, which is an illustration of the substitution effect on a market-wide scale, contributing to the downward slope of the market demand curve.

May/June 2010

12. Which law states that as a person consumes more of a good, the satisfaction derived from each additional unit decreases?
(A) Law of Supply
(B) Law of Diminishing Marginal Utility
(C) Law of Downward-Sloping Demand
(D) Law of Increasing Returns

Ans :

(B) Law of Diminishing Marginal Utility
The Law of Diminishing Marginal Utility is a psychological phenomenon in economics. It posits that the additional satisfaction, or utility, a consumer gains from consuming one more unit of a good or service declines with each successive unit consumed. For example, the satisfaction from a second glass of water is less than the first when one is thirsty.

Oct/Nov 2022

13. Which of the following is identified as a key determinant of market demand, directly related to consumers' purchasing power?
(A) The size of the market, which relates to the

NODIA

(A) Principles of Economics (1890) -> The Wealth of Nations (1776) -> General Theory of Employment, Interest and Money (1936)
(B) The Wealth of Nations (1776) -> General Theory of Employment, Interest and Money (1936) -> Principles of Economics (1890)
(C) The Wealth of Nations (1776) -> Principles of Economics (1890) -> General Theory of Employment, Interest and Money (1936)
(D) General Theory of Employment, Interest and Money (1936) -> The Wealth of Nations (1776) -> Principles of Economics (1890)

Ans :

(C) The Wealth of Nations (1776) -> Principles of Economics (1890) -> General Theory of Employment, Interest and Money (1936)
The correct chronological sequence begins with Adam Smith's "The Wealth of Nations" in 1776, which laid the foundation for modern economics. This was followed by Alfred Marshall's "Principles of Economics" in 1890, which introduced the welfare definition. Finally, John Maynard Keynes's "General Theory" was published in 1936, establishing modern macroeconomics.

Oct/Nov 2008

68. Identify the INCORRECT statement from the following.
(A) Macroeconomics deals with the behaviour of individual firms and households.
(B) The term 'oikonomia' originally referred to 'household management'.
(C) Economics is also called a 'science of choice'.
(D) Scarcity means that available resources are insufficient to satisfy all wants.

Ans :

(A) Macroeconomics deals with the behaviour of individual firms and households.
This statement is incorrect. The study of the behaviour of individual economic units like firms and households is the domain of Microeconomics. Macroeconomics, in contrast, is concerned with the economy as a whole, studying aggregate variables like GDP, national income, and overall unemployment. The other three statements are factually correct as per the chapter content.

May/June 2006

69. A system of prices, markets, profits, and losses is the mechanism that determines 'what, how, and for whom' in which type of economy?
(A) Command Economy
(B) Traditional Economy
(C) Market Economy
(D) Mixed Economy

Ans :

(C) Market Economy
In a market or capitalistic economy, the core economic questions are answered through a decentralized system. This system is composed of markets where prices are formed, and the pursuit of profits and avoidance of losses by individuals and firms act as the guiding incentives for production and consumption decisions, thus allocating resources and distributing output.

Oct/Nov 2017

70. What fundamental condition must be present for an "economic problem" to exist?
(A) The existence of scarcity and alternative uses of available resources.
(B) The presence of money and complex financial markets.
(C) The existence of international trade and globalization.
(D) The absence of government regulation in the economy.

Ans :

(A) The existence of scarcity and alternative uses of available resources.
The text states that in the absence of scarcity and alternative uses of available resources, there is no economic problem. The core issue arises because human wants are unlimited, but the resources to fulfill them are limited (scarcity) and can be used in different ways (alternative uses), forcing individuals and societies to make choices.

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CHAPTER 13
Supply and Demand

Oct/Nov 2016

1. According to the theory of supply and demand, what are the primary determinants of consumer demand and business supply respectively?

(A) Business costs determine consumer demand, while consumer preferences are the main determinant for the supply of commodities.

(B) Consumer preferences determine consumer demand, and business costs determine the supply of commodities.

(C) Government policies and regulations are the primary determinants of both consumer demand and business supply.

(D) Prevailing market prices are the sole determinants for both the level of consumer demand and the quantity of business supply.

Ans :

(B) Consumer preferences determine consumer demand, and business costs determine the supply of commodities.

The theory of supply and demand explains changes in the economic environment by showing how consumer choices and preferences shape the demand for goods. Concurrently, it demonstrates how the costs incurred by businesses in production are the fundamental driver for the supply of those same commodities, establishing the two core forces of the market.

May/June 2021

2. What is the central mechanism that brings supply and demand into balance or equilibrium in a market economy?

(A) The price mechanism, through which price adjustments signal scarcity or abundance.

(B) Government intervention, through direct control over production and consumption levels.

(C) Production cost management, by which firms independently adjust their output to maximize profit.

(D) Consumer preference surveys, which directly inform producers of the exact quantity to supply.

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Ans :

(A) The price mechanism, through which price adjustments signal scarcity or abundance.

The price mechanism is the core process through which the forces of supply and demand are brought into balance. It is the movement of prices, either upwards or downwards, that signals to producers and consumers, ultimately leading the market to a state of equilibrium where the quantity supplied equals the quantity demanded at a specific price.

Oct/Nov 2008

Which of the following best defines a 'demand schedule'?

(A) A schedule showing how the quantity demanded of a good changes in response to a consumer's income, assuming price remains constant.

(B) A graph showing the relationship between production cost and the quantity of a good producers will supply, holding technology constant.

(C) A table showing the relationship between the market price of a good and the quantity demanded of that good, holding other factors constant.

(D) A list ranking consumer preferences for different commodities, without regard to price or income constraints.

Ans :

(C) A table showing the relationship between the market price of a good and the quantity demanded of that good, holding other factors constant.

A demand schedule is a tabular representation that outlines the specific quantities of a commodity that consumers are willing and able to purchase at different price levels, under the ceteris paribus assumption. This means all other factors that could influence demand, such as income or tastes, are held constant to isolate the price-quantity relationship.

May/June 2012

4. Based on the hypothetical demand schedule for apples in Table 13.1, what is the quantity demanded when the price is Rs. 300 per box?
(A) 9 million boxes
(B) 10 million boxes
(C) 15 million boxes
(D) 12 million boxes

Ans :

(D) 12 million boxes
The demand schedule presented in Table 13.1 explicitly lists the quantity of apples consumers will purchase at various price points. At a price level of Rs. 300 per box, the corresponding quantity demanded is shown to be 12 million boxes per year, illustrating the inverse relationship between price and quantity demanded in the schedule.

Oct/Nov 2024

5. The demand curve, as depicted in Figure 13.1, graphically represents the relationship between which two variables?
(A) Quantity demanded on the vertical Y-axis and price on the horizontal x-axis.
(B) Consumer income on the vertical Y-axis and quantity demanded on the horizontal x-axis.
(C) Price on the vertical Y-axis and quantity demanded on the horizontal x-axis.
(D) Price on the vertical Y-axis and time on the horizontal x-axis.

Ans :

(C) Price on the vertical Y-axis and quantity demanded on the horizontal x-axis.
A standard demand curve is a graphical illustration of the demand schedule. By convention, it plots the price (P) of the commodity on the vertical or Y-axis and the quantity demanded (Q) of that commodity on the horizontal or x-axis. This visual representation shows the inverse relationship between the two variables as a downward-sloping line.

May/June 2005

6. What is the name of the principle stating that as the price of a commodity is raised, holding other factors constant, buyers tend to purchase less of it?
(A) The law of diminishing marginal utility
(B) The law of downward-sloping demand
(C) The law of supply
(D) The principle of market equilibrium

Ans :

(B) The law of downward-sloping demand
The law of downward-sloping demand describes the inverse relationship between the price of a good and the quantity demanded. It states that when the price of a commodity increases, assuming other factors remain constant, consumers will buy fewer units. Conversely, when the price decreases, the quantity demanded will increase, resulting in a downward-sloping demand curve.

Oct/Nov 2019

7. The tendency for quantity demanded to fall as price rises is explained by two primary effects. What are they?
(A) The production effect and the cost effect
(B) The Veblen effect and the Giffen effect
(C) The market size effect and the preference effect
(D) The substitution effect and the income effect

Ans :

(D) The substitution effect and the income effect
The law of downward-sloping demand is underpinned by two key behavioral responses from consumers. The substitution effect occurs when consumers switch to cheaper alternatives as a good's price rises. The income effect comes into play as a higher price reduces a consumer's real income, or purchasing power, leading them to curb their overall consumption.

May/June 2017

8. A consumer regularly buys brand 'A' coffee. The price of brand 'A' coffee increases significantly, while the price of brand 'B' coffee, a similar product, remains unchanged. The consumer decides to start buying brand 'B' instead. Which economic concept does this consumer's action primarily illustrate?
(A) The substitution effect
(B) The income effect
(C) The law of diminishing marginal utility
(D) The Veblen effect

Ans :

(A) The substitution effect
The substitution effect is demonstrated when a change in price causes a consumer to substitute one good for another similar, but relatively cheaper, good. In this case, the consumer

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May/June 2025

55. A society must decide whether to have factories run by people or by robots. This choice involves a trade-off primarily related to which fundamental economic question?
(A) For whom goods are produced.
(B) What commodities are produced.
(C) How goods are produced.
(D) The distribution of income.

Ans :

(C) How goods are produced.
This decision is a classic example of the "how" question of economic organization. It concerns the specific techniques and combination of resources (in this case, labour versus capital in the form of robots) that a society will use to produce goods and services. This choice directly impacts efficiency, costs, and employment, which are central to production methods.

Oct/Nov 2019

56. Consider the following four statements regarding different types of economies.
1. In a Market Economy, private firms make major decisions about production.
2. In a Command Economy, the government owns most means of production.
3. A Laissez-faire economy is an extreme form of a Market Economy.
4. India has operated as a pure Command Economy since its independence.

Which combination of statements is correct?
(A) 1, 2, and 4
(B) 2, 3, and 4
(C) 1, 2, and 3
(D) 1, 3, and 4

Ans :

(C) 1, 2, and 3
Statement 1 is correct, as private firms are key decision-makers in market economies. Statement 2 is correct, as government ownership of resources is a feature of command economies. Statement 3 is correct, as laissez-faire implies minimal government interference. Statement 4 is incorrect; India has been a mixed economy, not a pure command economy.

May/June 2009

57. Given the following statements:
Assertion (A): The mere shortage of a commodity does not make it scarce in the economic sense.
Reason (R): For a commodity to be considered scarce, there must be a demand for it that is greater than its supply.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion is a key economic principle. The reason correctly explains why this is so. Scarcity is a relative concept based on the relationship between supply and demand. As the text illustrates with rotten eggs, a low supply is irrelevant if there is no demand. Therefore, demand exceeding supply is the necessary condition for economic scarcity.

Oct/Nov 2011

58. Read the following source and answer the question:
"In contrast, a command economy is one in which the government makes all important decisions about production and distribution... In short, in a command economy, the government addresses major economic questions by virtue of its ownership of resources and its power to enforce decisions."
Based on the source, what are the two primary sources of the government's authority in a command economy?
(A) Ownership of resources and the power to enforce decisions.
(B) Democratic elections and public opinion.
(C) Market prices and consumer demand.
(D) International treaties and foreign investment.

Ans :

(A) Ownership of resources and the power to enforce decisions.
The provided text explicitly states that the government's ability to address major economic questions in a command economy stems from two key factors. The first is its "ownership of resources," and the second is its "power to enforce decisions." These two elements give the government the comprehensive control that defines this type of economic system.

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number of potential consumers.
(B) Tastes or preferences, which are subjective and culturally influenced.
(C) Average income of consumers, which affects their ability to buy goods.
(D) Special influences like weather, which affect demand for specific items.

Ans :

(C) Average income of consumers, which affects their ability to buy goods.
The average income of consumers is a fundamental force behind the demand curve. As the general income level in a population rises, individuals have greater purchasing power and tend to buy more of most goods and services, even if prices do not change. This is a powerful driver of overall market demand, especially for items like automobiles.

May/June 2009

14. How does the size of the market, measured by population, affect market demand?
(A) It has no measurable effect on the total market demand for most goods.
(B) A larger population generally leads to lower per-capita and thus lower total market demand.
(C) It only affects the demand for public goods, not private commodities.
(D) A larger population increases the number of consumers, which typically leads to higher market demand.

Ans :

(D) A larger population increases the number of consumers, which typically leads to higher market demand.
The size of the market, which can be measured by its population, is a direct determinant of total market demand. A larger population, like that of Mumbai compared to Bhubaneswar, means more potential consumers. Consequently, the total quantity demanded for a good like apples will be higher in the larger market, assuming other factors are similar.

Oct/Nov 2015

15. In the context of forces behind the demand curve, goods that tend to perform the same function, such as pens and pencils, are known as what?
(A) Substitute goods
(B) Complementary goods
(C) Giffen goods
(D) Veblen goods

Ans :

(A) Substitute goods
Substitute goods are pairs of goods that can be used in place of each other to satisfy a similar need or want. Examples include pens and pencils, or oil and natural gas. The price and availability of a substitute good have a significant influence on the demand for the original good; for example, low-priced substitutes reduce demand.

May/June 2023

16. Which of the following is considered a subjective element influencing demand?
(A) Average income of the population
(B) Tastes or preferences of consumers
(C) Population size of the market
(D) Price of related goods

Ans :

(B) Tastes or preferences of consumers
While factors like income and population are objective and measurable, tastes or preferences are a set of subjective elements that shape demand. These can be influenced by cultural, historical, psychological, or even religious factors. Tastes can include genuine needs, artificially created cravings, or traditional consumption patterns, making them a complex but important determinant of demand.

Oct/Nov 2006

17. Which of the following is an example of a 'special influence' affecting demand?
(A) A nationwide rise in the average income of consumers, boosting car sales.
(B) High demand for umbrellas in a city with a rainy climate like Mumbai.
(C) A general cultural preference for American beef over other types of meat.
(D) An increase in the price of pencils causing the demand for pens to rise.

Ans :

(B) High demand for umbrellas in a city with a rainy climate like Mumbai.
Special influences are unique, often situational factors that affect demand for specific goods. The high demand for umbrellas in a rainy city like Mumbai, compared to a sunny city like Delhi, is a classic example. Other special influences include

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the market price, producers are incentivized to supply a great deal.

(B) Production costs have no direct impact on the quantity supplied, which is determined by demand.

(C) When production costs are low relative to the market price, producers are incentivized to supply a great deal.

(D) Producers are incentivized to supply less when production costs are low to create artificial scarcity.

Ans :

(C) When production costs are low relative to the market price, producers are incentivized to supply a great deal.

The decision to supply is based on profitability, which is the difference between market price and production cost. When production costs are low compared to the price the good can be sold for, the profit margin is high. This makes it highly profitable for producers to supply a large quantity of the good to the market.

May/June 2020

36. Which two factors are identified as the primary determinants of production costs?

(A) Consumer demand levels and the overall size of the market.

(B) Government subsidies and export duties on finished goods.

(C) Consumer tastes and preferences for different product features.

(D) Prices of inputs and the level of technological advancement.

Ans :

(D) Prices of inputs and the level of technological advancement.

Production costs are fundamentally shaped by two main forces. The first is the prices of inputs, which include costs for labor, energy, and machinery. The second is the level of technology, as technological advances can lower the quantity of inputs needed to produce a given output, thereby reducing per-unit costs and influencing overall production expenses.

Oct/Nov 2005

37. How do technological advances, such as the computerization of manufacturing, typically affect supply?

(A) They increase production costs by requiring expensive new machinery and decrease supply.

(B) They have no effect on supply but can have a significant effect on consumer demand.

(C) They lower production costs by increasing efficiency and therefore increase supply.

(D) They make production less efficient due to worker retraining and therefore decrease supply.

Ans :

(C) They lower production costs by increasing efficiency and therefore increase supply.

Technological advances are a key force behind the supply curve. They lead to changes that lower the quantity of inputs (like labor hours) needed to produce the same output. This increased efficiency reduces per-unit production costs. As costs fall, it becomes profitable to produce more at any given price, leading to an increase in supply.

May/June 2015

38. An automobile company produces both cars and trucks in the same factory. If the demand and price for trucks rise significantly, making them more profitable to produce, what is the likely impact on the supply of cars?

(A) The supply of cars will increase as the factory becomes more profitable overall.

(B) The supply of cars will decrease as resources are reallocated to truck production.

(C) The supply of cars will remain unchanged as they are different products.

(D) The company will stop producing cars entirely to focus only on trucks.

Ans :

(B) The supply of cars will decrease as resources are reallocated to truck production.

This scenario illustrates the impact of the "prices of related goods" on supply, specifically for goods that are alternative outputs. Since trucks and cars are production substitutes, a rise in the price of trucks incentivizes the company to allocate more resources, like assembly lines, to truck production. This reallocation reduces the capacity to produce cars, decreasing their supply.

Oct/Nov 2018

39. How can government policies, such as taxes and minimum-wage laws, influence the supply of a good?

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(B) Veblen goods
(C) Necessary goods
(D) Inferior goods

Ans :

(B) Veblen goods
Veblen goods, named after economist Thorstein Veblen, are luxury items that defy the law of demand. For these goods, a higher price enhances their value as a symbol of status and wealth, leading to an increase in demand. This phenomenon is known as 'conspicuous consumption,' where the high price itself is a desirable attribute.

Oct/Nov 2025

23. The principle of 'conspicuous consumption' is most closely associated with which type of good?
(A) Giffen Goods
(B) Necessary Goods
(C) Substitute Goods
(D) Veblen Goods

Ans :

(D) Veblen Goods
The concept of conspicuous consumption was pioneered by economist Thorstein Veblen. It describes the behavior of purchasing expensive goods not for their intrinsic utility but to display economic power or social status. Veblen goods, such as designer bags and high-priced cell phones, are prime examples, as their desirability often increases with their price.

May/June 2018

24. Assertion (A): The demand curve for Veblen goods is an exception to the law of demand and slopes upward.
Reason (R): For Veblen goods, a higher price is perceived by consumers as an indicator of superior quality, exclusivity, and social status, thus increasing its desirability.
(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
Assertion (A) is true because Veblen goods defy the law of demand. Reason (R) correctly explains this phenomenon: the demand for these luxury items increases as their price rises because the high price itself signals greater worth, quality, and status to the consumer. This makes the goods more desirable, leading to an upward-sloping demand curve.

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Oct/Nov 2010

25. What is a distinguishing feature of Giffen goods?
(A) They are luxury items for which demand increases as their price increases due to status.
(B) They are normal goods for which demand decreases as consumer income rises.
(C) They are inferior goods for which demand increases as their price rises due to a strong income effect.
(D) They are goods for which demand is perfectly inelastic to any changes in market price.

Ans :

(C) They are inferior goods for which demand increases as their price rises due to a strong income effect.
Giffen goods, named after Sir Robert Giffen, have a unique and paradoxical characteristic. They are inferior goods, but unlike typical inferior goods, demand for them increases when their price increases. This occurs when the good is a major staple for a poor household, and the price rise forces them to cut back on other foods.

May/June 2013

26. During the 19th-century Irish Potato Famine, the price of potatoes, a staple food, increased. However, impoverished families ended up consuming more potatoes. This historical event is a classic illustration of which economic concept?
(A) Giffen goods
(B) Veblen goods
(C) Necessary goods
(D) The substitution effect

Ans :

(A) Giffen goods
The Irish Potato Famine is the quintessential example used to explain Giffen goods. As the price of the staple food (potatoes) rose, poor families could no longer afford more expensive foods like meat. They were forced to spend their limited income on even more potatoes to meet

their basic caloric needs, causing demand to rise with price.

Oct/Nov 2021

27. Why are necessities like basic medicines or salt often considered an exception to the law of demand?

(A) Their demand increases significantly when their price falls, as people stockpile them.
(B) They are luxury goods consumed only by a small, wealthy segment of the population.
(C) Their demand is highly sensitive to changes in consumer income for normal goods.
(D) Demand is highly inelastic as people must purchase them even if the price rises.

Ans :

(D) Demand is highly inelastic as people must purchase them even if the price rises.
Necessary goods and services, such as essential medicines or staple food items like salt, have highly inelastic demand. People need these items for survival or basic well-being and will typically continue to buy them in similar quantities even if their prices increase. The lack of viable substitutes means that price changes have a minimal effect on demand.

May/June 2006

28. How can a change in a consumer's income pattern be considered an exception to the law of demand?

(A) If income rises, a consumer will always buy less of all goods to increase savings.
(B) If income rises, a consumer might buy more of a good regardless of a price increase.
(C) A change in income only affects the demand for Giffen goods, not normal goods.
(D) A change in income only affects the supply curve by altering production costs.

Ans :

(B) If income rises, a consumer might buy more of a good regardless of a price increase.
Changes in income can override the typical price-demand relationship. For instance, if a household's income rises substantially, they may increase their demand for a certain product even if its price has also gone up. Conversely, a drop in income might cause them to postpone a purchase even if the item's price has decreased, creating an exception.

Oct/Nov 2017

29. Which of the following statements correctly identifies a key difference between a Giffen good and a Veblen good?

(A) Giffen goods are luxury items whose demand increases with price, while Veblen goods are inferior staples.
(B) Both are luxury goods, but Giffen goods are more sensitive to changes in consumer income.
(C) Giffen goods are inferior staples whose demand rises with price, while Veblen goods are luxury items.
(D) Both are inferior goods, but Veblen goods are more sensitive to price changes due to status.

Ans :

(C) Giffen goods are inferior staples whose demand rises with price, while Veblen goods are luxury items.
The core difference lies in the nature of the goods. Giffen goods are inferior items, typically staples in a low-income diet, where a price rise leads to higher demand out of necessity. Veblen goods are luxury items, where a price rise increases demand because the high price itself signifies status and exclusivity (conspicuous consumption).

May/June 2008

30. A supply schedule for a commodity shows the relationship between its market price and what other variable?

(A) The quantity that consumers are willing and able to buy at that price.
(B) The cost of raw materials used in its production at a given output level.
(C) The level of consumer income relative to the price of the commodity.
(D) The amount that producers are willing and able to produce and sell at that price.

Ans :

(D) The amount that producers are willing and able to produce and sell at that price.
The supply schedule, or supply curve, specifically illustrates the seller's side of the market. It details the relationship between the market price of a good and the quantity of that good that producers are willing and able to produce and offer for sale, holding other factors like input costs and technology constant.

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Oct/Nov 2012

31. When constructing a supply schedule, which of the following factors is held constant?
(A) Input prices, technology, and government policies.
(B) The market price of the good being analyzed.
(C) The quantity supplied of the good by producers.
(D) Consumer demand for the good in the market.

Ans :

(A) Input prices, technology, and government policies.
Similar to the demand curve, the supply curve is drawn under the ceteris paribus assumption. It isolates the relationship between the good's own price and the quantity supplied. Therefore, all other factors that could influence supply, such as the cost of inputs, the state of technology, and government regulations, are assumed to remain constant.

May/June 2011

32. Refer to the following data from the hypothetical Supply Schedule for Apple (Table 13.2):

Price (Rs. per box)	Quantity supplied (millions of boxes per year)
500	18
400	16
300	12
200	7
100	0

What does the data point for a price of Rs. 100 signify?
(A) At a price of Rs. 100, the market is in a state of equilibrium.
(B) At a price of Rs. 100, producers will not supply any apples as it is unprofitable.
(C) At a price of Rs. 100, consumer demand for apples reaches its absolute peak.
(D) At a price of Rs. 100, producers will supply a fixed amount of 8 million boxes.

Ans :

(B) At a price of Rs. 100, producers will not supply any apples as it is unprofitable.
The supply schedule shows a direct relationship between price and quantity supplied. The table indicates that at a price of Rs. 100 per box, the quantity supplied is zero. This implies the price is too low to cover production costs or be profitable, so cultivators will not produce or sell any apples at this price.

Oct/Nov 2023

33. The typical supply curve for a commodity, as shown in Figure 13.4, is:
(A) Downward-sloping, from northwest to southeast.
(B) Upward-sloping.
(C) A horizontal line.
(D) A vertical line.

Ans :

(B) Upward-sloping.
A typical supply curve is upward-sloping, indicating a direct relationship between price and quantity supplied. As the market price of a good rises, it becomes more profitable for producers to supply that good. This incentivizes them to increase production and sell more, causing the quantity supplied to increase, which is reflected in the upward slope.

May/June 2022

34. What is the fundamental motivation for producers to supply commodities to the market?
(A) The pursuit of profit from their business operations.
(B) The enjoyment of the production process or for charitable reasons.
(C) The legal requirement to meet government-mandated production quotas.
(D) The altruistic goal of increasing overall consumer satisfaction in society.

Ans :

(A) The pursuit of profit from their business operations.
The primary driver for businesses and producers in a market economy is the pursuit of profit. They supply goods and services not for charitable reasons but because they expect the revenue from sales to exceed their costs of production. The level of profitability at a given market price is the key determinant of how much they supply.

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Oct/Nov 2014

35. What is the relationship between the cost of production and the quantity of a good a producer is willing to supply?
(A) When production costs are high relative to

producers are now willing and able to sell a larger quantity of the good. Such a shift is caused by factors like lower production costs or improved technology.

May/June 2021

44. What defines market equilibrium?

(A) The price and quantity where the amount sellers want to sell is greater than the amount buyers want to buy, creating a surplus.

(B) The price and quantity where the forces of supply and demand are in balance, with quantity supplied equaling quantity demanded.

(C) The price at which the government imposes a price ceiling or floor to regulate a commodity.

(D) The quantity at which production costs are at their absolute minimum, maximizing firm efficiency.

Ans :

(B) The price and quantity where the forces of supply and demand are in balance, with quantity supplied equaling quantity demanded.

Market equilibrium is a state where the opposing forces of supply and demand are perfectly balanced. It occurs at a specific price and quantity where the amount of a good that buyers want to buy is exactly equal to the amount that sellers want to sell. At this point, there is no inherent tendency for the price to rise or fall.

Oct/Nov 2008

45. Refer to Table, "How Supply and Demand Determines Market Equilibrium" for apples:

Possible price (Rs. per box)	Qty. demanded (millions)	Qty. supplied (millions)	State of market	Pressure on price
500	9	18	Surplus	Downward
400	10	16	Surplus	Downward
300	12	12	Equilibrium	Neutral
200	15	7	Shortage	upward
100	20	0	Shortage	upward

At a price of Rs.400 per box, what is the state of the market?

(A) There is a shortage of 6 million boxes, and prices will tend to rise.

(B) The market is in equilibrium, with quantity supplied matching quantity demanded.

(C) There is a surplus of 6 million boxes, and prices will tend to fall.

(D) There is a surplus of 10 million boxes, and prices will tend to fall.

Ans :

(C) There is a surplus of 6 million boxes, and prices will tend to fall.

According to the table, at a price of Rs. 400, the quantity supplied (16 million boxes) exceeds the quantity demanded (10 million boxes). This creates a surplus of 6 million boxes. With more apples available than consumers want to buy, sellers will lower prices to clear their inventory, resulting in downward pressure on the price.

May/June 2012

46. In a market, what is a 'surplus'?

(A) An excess of quantity demanded over quantity supplied, usually caused by a price below equilibrium.

(B) A situation where the market price is below the equilibrium price, leading to high demand.

(C) The point where the supply and demand curves intersect, also known as market equilibrium.

(D) An excess of quantity supplied over quantity demanded, usually caused by a price above equilibrium.

Ans :

(D) An excess of quantity supplied over quantity demanded, usually caused by a price above equilibrium.

A surplus, or excess supply, occurs when the market price is above the equilibrium price. At this higher price, producers are incentivized to supply a larger quantity of the good than consumers are willing to purchase. This imbalance, where quantity supplied is greater than quantity demanded, leads to unsold inventory and downward pressure on the price.

Oct/Nov 2024

47. What is a 'shortage' in a market context?

(A) An excess of quantity demanded over quantity supplied, typically occurring at a price below equilibrium.

(B) A situation where the market price is above the equilibrium price, leading to excess inventory.

(C) An excess of quantity supplied over quantity demanded, also known as a surplus.

(D) A situation where producers' profits are negative due to high production costs.

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(A) They always lower input prices for firms through subsidies, which tends to increase supply.
(B) They only affect the demand for a good by changing consumer income, not its supply.
(C) They have no significant impact on the supply decisions of firms in a free market.
(D) They can raise production costs for firms, which tends to decrease supply.

Ans :

(D) They can raise production costs for firms, which tends to decrease supply.
Government policy is a major force affecting supply. Policies like taxes, environmental regulations, or minimum-wage laws can increase the cost of production for firms. For example, a higher minimum wage raises labor costs. An increase in input prices reduces profitability at any given selling price, which in turn leads to a decrease in supply.

May/June 2016

40. Which of the following is considered a 'special factor' that can influence supply, particularly in the agro-industry?
(A) The weather
(B) The average income of consumers
(C) The price of substitute goods
(D) Consumer tastes and preferences

Ans :

(A) The weather
Special factors are unique influences on supply. The weather is a prominent example, exerting a critical influence on farming and the agro-industry. A favorable monsoon can lead to a bumper crop and increase supply, while a drought can devastate production and cause a sharp decrease in the supply of agricultural commodities.

Oct/Nov 2009

41. A 'shift in supply' is defined as a change in the quantity supplied that is caused by:
(A) a change in the price of the item, causing a movement along the supply curve.
(B) a change in the quantity demanded, leading to a new market equilibrium.
(C) a change in a non-price determinant, such as technology or input costs.
(D) a seasonal change in consumer preferences, which affects the demand curve.

Ans :

(C) a change in a non-price determinant, such as technology or input costs.
A shift in the supply curve occurs when an underlying determinant of supply, other than the good's own price, changes. These factors include input prices, technology, government policy, and prices of related goods. A change in the item's price causes a movement along the existing supply curve, not a shift of the curve itself.

May/June 2024

42. Which of the following events would cause the supply curve for automobiles to shift to the right?
(A) The introduction of cost-saving computerized design and manufacturing.
(B) A significant increase in the wages of autoworkers negotiated by unions.
(C) The implementation of stricter government environmental regulations on the auto industry.
(D) A global shortage causing a sharp increase in the price of steel.

Ans :

(A) The introduction of cost-saving computerized design and manufacturing.
A rightward shift of the supply curve signifies an increase in supply, meaning more can be supplied at each price. Cost-saving technology, like computerized design, reduces the labor and resources required to produce cars. This lowers production costs, increases profitability, and thus increases the supply of automobiles, shifting the curve to the right.

NODIA

Oct/Nov 2016

43. As illustrated in Figure 13.5, a rightward shift of the supply curve for automobiles from S to S^1 indicates:
(A) a decrease in the supply of automobiles.
(B) an increase in the market price of automobiles.
(C) a decrease in the consumer demand for automobiles.
(D) an increase in the supply of automobiles.

Ans :

(D) an increase in the supply of automobiles.
In a supply and demand diagram, a shift of the supply curve to the right represents an increase in supply. This means that at any given price,

the price. The arrows in the diagram show this upward pressure on price during a shortage.

May/June 2025

52. A spell of bad weather raises the price of wheat, a key ingredient for bread. This leads bakers to produce less bread at the old price, while consumer demand for sandwiches remains unchanged. What is the immediate effect in the bread market?

(A) A surplus of bread is created, causing the price of bread to fall.
(B) The market remains in equilibrium, but at a lower overall quantity.
(C) Both the supply and demand for bread decrease, keeping the price stable.
(D) Quantity demanded exceeds quantity supplied at the old price, causing a shortage.

Ans :

(D) Quantity demanded exceeds quantity supplied at the old price, causing a shortage.
The bad weather for wheat increases input costs for bread, causing a leftward shift in the supply curve. At the original price, bakers now supply less bread, but demand hasn't changed. This creates a shortage where quantity demanded exceeds the new, lower quantity supplied. This shortage will cause the price of bread to rise toward a new equilibrium.

Oct/Nov 2007

53. When the supply curve for a product shifts to the left, what is the typical effect on the equilibrium price and quantity, assuming the demand curve remains unchanged?

(A) Price falls and quantity rises.
(B) Both price and quantity rise.
(C) Price rises and quantity falls.
(D) Both price and quantity fall.

Ans :

(C) Price rises and quantity falls.
A leftward shift in the supply curve signifies a decrease in supply. With less of the good available at every price, the old equilibrium is disrupted, creating a shortage. To reach a new equilibrium, the price must rise. According to the law of demand, this higher price will, in turn, cause the quantity demanded to decrease.

May/June 2010

54. If there is a sharp increase in family incomes, causing a rightward shift in the demand curve for bread, what is the effect on the market equilibrium?

(A) A surplus is created at the old price, leading to a lower equilibrium price and quantity.
(B) A shortage is created at the old price, leading to a higher equilibrium price and quantity.
(C) The supply curve shifts left to meet the new demand, raising the price but lowering quantity.
(D) The equilibrium price falls due to increased market efficiency, and the equilibrium quantity rises.

Ans :

(B) A shortage is created at the old price, leading to a higher equilibrium price and quantity.
A rightward shift in demand means consumers want to buy more bread at every price. At the original equilibrium price, demand now exceeds supply, creating a shortage. This shortage puts upward pressure on prices. As prices rise, producers are incentivized to supply more, and the market moves to a new equilibrium point with a higher price and higher quantity.

Oct/Nov 2022

55. A change in technology or input prices would lead to a shift in the _____, while a change in incomes or tastes would lead to a shift in the _____.

(A) demand curve; supply curve
(B) demand curve; demand curve
(C) supply curve; supply curve
(D) supply curve; demand curve

Ans :

(D) supply curve; demand curve
The underlying variables for each curve are distinct. Factors related to production, such as technology and the cost of inputs, directly affect a firm's willingness and ability to sell, thereby shifting the supply curve. Factors related to consumer behavior, such as income, population, and preferences (tastes), affect a consumer's willingness to buy, thereby shifting the demand curve.

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Ans :

(A) An excess of quantity demanded over quantity supplied, typically occurring at a price below equilibrium.
A shortage, or excess demand, arises when the market price is below the equilibrium price. At this lower price, consumers are willing to buy more of the good than producers are willing to sell. This condition, where quantity demanded exceeds quantity supplied, leads to competition among buyers and creates upward pressure on the market price.

May/June 2005

48. The equilibrium price is also known as the 'market-clearing price' because at this price:
(A) all suppliers who cannot compete at this price have been cleared from the market.
(B) all supply and demand orders are filled, and the books are 'cleared' of any surplus or shortage.
(C) the government has reviewed and cleared the price for trading to protect consumers.
(D) all consumers have had their demand fully satisfied, regardless of their ability to pay.

Ans :

(B) all supply and demand orders are filled, and the books are 'cleared' of any surplus or shortage.
The term 'market-clearing price' is synonymous with the equilibrium price. It is called this because at this specific price, the quantity that buyers wish to purchase is exactly equal to the quantity that sellers wish to sell. Consequently, all transaction orders can be completed, satisfying both demanders and suppliers and 'clearing' the market of any surplus or shortage.

Oct/Nov 2019

49. In a supply-and-demand diagram, where is the market equilibrium found?
(A) At the highest point of the demand curve, representing maximum willingness to pay.
(B) At the intersection of the supply and demand curves, where quantities are equal.
(C) At the lowest point of the supply curve, representing minimum production cost.
(D) At the midpoint of the horizontal quantity axis, representing average output.

Ans :

(B) At the intersection of the supply and demand curves, where quantities are equal.
The graphical representation of market equilibrium is the point where the downward-sloping demand curve and the upward-sloping supply curve intersect. At this intersection point, the price and quantity values on the vertical and horizontal axes correspond to the unique equilibrium price and equilibrium quantity where the market is in balance.

May/June 2017

50. As shown in Figure 13.6, if the market price is Rs. 500 per box, what condition exists in the market for apples?
(A) Surplus
(B) Equilibrium
(C) Shortage
(D) Excess Demand

Ans :

(A) Surplus
The diagram shows that at a price of Rs. 500, the quantity on the supply curve is much larger than the quantity on the demand curve. This means suppliers want to sell more than demanders want to buy. The result is an excess of quantity supplied over quantity demanded, which is labeled in the figure as a 'Surplus'.

Oct/Nov 2011

51. According to Figure 13.6, under conditions of a 'Shortage', what is the resulting pressure on price?
(A) The price tends to fall to clear excess inventory.
(B) The price remains stable as the market has cleared.
(C) The price tends to rise as buyers compete for limited goods.
(D) The government intervenes to set a new, lower price.

Ans :

(C) The price tends to rise as buyers compete for limited goods.
A shortage occurs when the price is below equilibrium, causing quantity demanded to exceed quantity supplied. In this situation, there is intense competition among buyers for the limited available goods. This competition, as buyers scramble to make purchases, bids up

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weather conditions affecting air conditioner demand or expectations about future price changes, which can impact current buying behavior.

May/June 2014

18. When drawing a demand curve, what assumption is made about factors like average income, population, and tastes?

(A) It is assumed that these non-price factors are held constant.
(B) It is assumed that these non-price factors are increasing at a steady rate.
(C) It is assumed that these non-price factors are decreasing over time.
(D) It is assumed that these non-price factors are irrelevant to the price-quantity relationship.

Ans :

(A) It is assumed that these non-price factors are held constant.
A demand curve is designed to show the relationship between only two variables: the price of a good and the quantity demanded. To isolate this relationship, economists use the ceteris paribus assumption, which means 'other things being equal.' Therefore, all other non-price determinants of demand, such as income and tastes, are assumed to be held constant.

Oct/Nov 2020

19. A 'shift in the demand curve' is caused by a change in which of the following?

(A) A change in the price of the good, which causes a movement along the curve.
(B) A change in the quantity supplied of the good, which affects equilibrium.
(C) A change in a non-price variable, such as average income or consumer tastes.
(D) A change in the cost of producing the good, which primarily affects supply.

Ans :

(C) A change in a non-price variable, such as average income or consumer tastes.
A shift of the entire demand curve, either to the right or left, occurs when a factor other than the good's own price changes. These non-price variables, or underlying influences, include average income, population size, prices of related goods, tastes, and special influences. A change in the good's own price causes a movement along the curve.

NODIA

May/June 2019

20. During the economic boom of 2006-08 in India, average incomes rose sharply. As a result, at a price of Rs. 2,00,000, the quantity of automobiles demanded rose from 10 million to 12 million units. This change represents a:

(A) movement down along the demand curve for automobiles.
(B) shift in the supply curve for automobiles.
(C) movement up along the demand curve for automobiles.
(D) shift in the demand curve for automobiles.

Ans :

(D) shift in the demand curve for automobiles.
The increase in quantity demanded was not due to a price change for automobiles but was caused by a rise in average incomes, which is a non-price determinant of demand. When an underlying factor like income changes, it causes the entire demand curve to shift. In this case, higher income led to a rightward shift in demand.

Oct/Nov 2013

21. As illustrated in Figure 13.3, what does a rightward shift of the demand curve for automobiles from D to D^1 signify?

(A) Fewer cars will be bought at every price due to a change in preferences.
(B) Cars have become cheaper to produce, affecting the supply side of the market.
(C) More cars will be bought at every price due to a change in a non-price factor.
(D) The price of cars has decreased, causing a movement along the original demand curve.

Ans :

(C) More cars will be bought at every price due to a change in a non-price factor.
A rightward shift in the demand curve indicates an increase in demand. This means that at any given price level, consumers are now willing and able to purchase a larger quantity of the good than they were before the shift. This is caused by a change in an underlying determinant, such as an increase in consumer income.

May/June 2007

22. Which of the following goods is an exception to the law of demand, where demand for the commodity rises as its price rises due to its perception as a status symbol?

(A) Giffen goods

May/June 2009

56. If you observe that the price of a good has risen and the quantity sold has decreased, what is the most likely cause?

(A) The supply curve has shifted to the left (a decrease in supply).
(B) The demand curve has shifted to the right (an increase in demand).
(C) The demand curve has shifted to the left (a decrease in demand).
(D) The supply curve has shifted to the right (an increase in supply).

Ans :

(A) The supply curve has shifted to the left (a decrease in supply).
This combination of market changes provides a clue to the underlying cause. A leftward shift in supply (a decrease in supply) means less is available, which creates a shortage and drives the price up. The higher price, in turn, causes a movement along the unchanged demand curve to a lower quantity demanded. Thus, a price increase and quantity decrease suggests a supply decrease.

Oct/Nov 2015

57. If the market for airline tickets sees a decrease in the number of tickets sold, what information is needed to determine the cause?

(A) Only the change in price is needed; the quantity change is irrelevant.
(B) Only the change in quantity is needed; the price change is irrelevant.
(C) Information on whether the price has risen or fallen is needed to distinguish the cause.
(D) No additional information is needed; the cause is always a fall in consumer demand.

Ans :

(C) Information on whether the price has risen or fallen is needed to distinguish the cause.
A decrease in quantity sold can have two primary causes. If fares (price) have gone up, it likely indicates a decrease in supply. If fares have gone down, it could indicate a decrease in demand. Without knowing the direction of the price change, it is impossible to distinguish between a shift in the supply curve and a shift in the demand curve.

May/June 2023

58. An increase in the price of a good accompanied by an increase in the quantity sold suggests that:

(A) the demand curve has probably shifted to the right (an increase in demand).
(B) the supply curve has shifted to the left (a decrease in supply).
(C) the supply curve has shifted to the right (an increase in supply).
(D) the demand curve has probably shifted to the left (a decrease in demand).

Ans :

(A) the demand curve has probably shifted to the right (an increase in demand).
When the demand curve shifts to the right, it creates a shortage at the original price, causing the price to be bid up. As the market moves to a new, higher equilibrium price, the corresponding equilibrium quantity also increases. Therefore, the simultaneous observation of a price increase and a quantity increase strongly indicates an increase in demand.

Oct/Nov 2006

59. "Figure 13.9(a) shows the case of an increase in demand or a shift in the demand curve. As a result of the shift, the equilibrium quantity demanded increases from 10 to 15 units... Figure 13.9(b) shows... a supply shift changes the market equilibrium from point E to point E^1. As a result, the quantity demanded changes from 10 to 15 units. But the demand curve does not change in this case..."
What key distinction is being illustrated between Figure 13.9(a) and 13.9(b)?

(A) Figure (a) shows an increase in supply, while Figure (b) shows an increase in demand.
(B) Both figures illustrate an identical shift of the demand curve to a new position.
(C) Figure (a) shows a movement along the supply curve, while Figure (b) shows a shift of the supply curve.
(D) Figure (a) shows a shift of the demand curve, while Figure (b) shows a movement along the demand curve.

Ans :

(D) Figure (a) shows a shift of the demand curve, while Figure (b) shows a movement along the demand curve.

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The text and figures highlight a critical difference. In the first case, a change in a non-price factor causes the entire demand curve to shift right, resulting in a new equilibrium. In the second case, a shift in the supply curve causes the price to fall, which then induces consumers to move along their original, unchanged demand curve to a higher quantity.

May/June 2014

60. A "movement along the demand curve" is a response to a change in:
(A) the average income of consumers.
(B) the price of the good itself.
(C) the subjective tastes of consumers.
(D) the price of a substitute good.

Ans :

(B) the price of the good itself.
It is crucial to distinguish between a shift of the curve and a movement along it. A movement along a stationary demand curve occurs only when the price of that specific good changes, causing a change in the quantity demanded. Changes in any other determinant (income, tastes, etc.) cause the entire curve to shift.

Oct/Nov 2020

61. Which statement incorrectly describes a force behind the demand curve?
(A) The average income of consumers is a key determinant of overall demand.
(B) The prices and availability of related goods, like substitutes, influence demand.
(C) The cost of production is a major factor influencing how much consumers demand.
(D) Special influences, such as weather, can have an impact on demand for certain goods.

Ans :

(C) The cost of production is a major factor influencing how much consumers demand.
The cost of production is a fundamental force behind the supply curve, as it determines profitability for producers. The forces behind the demand curve relate to consumer behavior and include average income, market size, prices of related goods, tastes, and special influences. Consumer demand is not directly determined by how much a good costs to make.

May/June 2019

62. Identify the correct pair from the following options.
(A) Increase in price of a Giffen good - Decrease in quantity demanded
(B) Increase in consumer income - Leftward shift of demand curve for normal goods
(C) Improvement in technology - Rightward shift of supply curve
(D) Price below equilibrium - Market surplus

Ans :

(C) Improvement in technology - Rightward shift of supply curve
An improvement in technology lowers production costs, making it profitable for firms to produce and sell more at any given price. This results in an increase in supply, which is graphically represented as a rightward shift of the supply curve. All other pairs are incorrect; for example, a price below equilibrium causes a shortage, not a surplus.

NODIA

Oct/Nov 2013

63. Consider the following statements regarding market dynamics:
1. The market demand curve is found by vertically summing individual demand curves.
2. The law of diminishing marginal utility helps explain the downward slope of the demand curve.
3. A shift in the supply curve to the left leads to a higher equilibrium price and a lower equilibrium quantity.

Which of the above statements is/are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(B) 2 and 3 only
Statement 1 is incorrect; the market demand curve is found by horizontal summation of quantities at each price. Statement 2 is correct, as decreasing satisfaction from additional units makes consumers willing to buy more only at lower prices. Statement 3 is correct, as a decrease in supply creates a shortage, driving prices up and quantity down.

May/June 2007

64. Match List-I (Concept) with List-II (Description).

List-I

P. Substitution Effect
Q. Income Effect
R. Giffen Good
S. Veblen Good

List-II

1. A higher price reduces consumer purchasing power, causing a fall in quantity demanded.
2. An inferior good for which demand increases as its price rises.
3. A higher price increases demand due to its function as a status symbol.
4. Consumers switch to a cheaper alternative when a good's price increases.

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-1, R-2, S-4

Ans :

(A) P-4, Q-1, R-2, S-3
The correct pairings are: Substitution Effect (P) is switching to a cheaper alternative (4). Income Effect (Q) is the impact of a price change on purchasing power (1). A Giffen Good (R) is an inferior good whose demand rises with its price (2). A Veblen Good (S) is a status good whose demand rises with its price (3).

Oct/Nov 2025

65. "The demand for umbrellas is high in rainy Mumbai but low in sunny Delhi; the demand for air conditioners will rise in hot weather. In addition, expectations about future economic conditions, particularly prices, may have an important impact on demand."
Based on this text, these factors are categorized as:
(A) Tastes or preferences.
(B) Special influences.
(C) Prices of related goods.
(D) Average income.

Ans :

(B) Special influences.
The paragraph explicitly categorizes these examples under the heading of 'special influences'. These are unique, often situational factors that affect demand for particular goods. The examples of weather-dependent demand for umbrellas and air conditioners, and the impact of future price expectations, are distinct from the broader categories of income, tastes, or prices of other goods.

May/June 2018

66. Which of the following is NOT a force behind the market supply curve?
(A) Size of the market (population)
(B) Cost of production
(C) Government policies
(D) Technological advances

Ans :

(A) Size of the market (population)
The size of the market, as measured by population, is a key determinant of the market demand curve, as it relates to the number of potential consumers. The forces behind the supply curve are related to production and include the cost of production, technology, prices of related goods, government policies, and other special factors like weather.

Oct/Nov 2010

67. Consider the following statements about shifts in curves and movements along curves.
1. A change in the price of a good causes a shift in its demand curve.
2. A change in consumer income causes a movement along the demand curve.
3. An improvement in production technology causes a shift in the supply curve.

Which of the statements is/are correct?
(A) 3 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(A) 3 only
Statement 1 is incorrect; a price change causes a movement along the demand curve. Statement 2 is incorrect; a change in income causes a shift of the demand curve. Statement 3 is correct; a change in a non-price determinant of supply, like technology, causes the entire supply curve to shift, reflecting a change in supply.

May/June 2013

68. Which of the following 4-statement combinations is correct regarding the forces influencing supply and demand?

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1. An increase in population shifts the demand curve to the right.
2. A fall in input prices shifts the supply curve to the left.
3. A rise in the price of a substitute good shifts the demand curve to the right.
4. The expectation of future price rises can shift the current demand curve to the right.

(A) 1, 2, and 3
(B) 2, 3, and 4
(C) 1, 3, and 4
(D) 1, 2, and 4

Ans :

(C) 1, 3, and 4
Statement 1 is correct. Statement 2 is incorrect; a fall in input prices lowers costs and increases supply, shifting the curve to the right. Statement 3 is correct, as consumers switch from the now-pricier substitute. Statement 4 is correct, as consumers buy now to avoid future higher prices, which is a special influence on demand.

Oct/Nov 2021

69. "When production costs for a good are low relative to the market price, it is profitable for producers to supply a great deal. When production costs are high relative to price, firms produce little, or switch over to production of other products, or may simply go out of business."
This paragraph explains that the primary determinant of the quantity a firm supplies is:
(A) the level of consumer demand for the firm's product.
(B) the stringency of government regulation in the firm's industry.
(C) the relationship between production cost and market price.
(D) the firm's historical output levels and production capacity.

Ans :

(C) the relationship between production cost and market price.
The text explicitly links the decision to supply directly to profitability, which is determined by the gap between production costs and the market price. Low costs relative to price encourage high supply, while high costs relative to price discourage supply. This cost-price relationship is presented as the fundamental element underlying the supply decision for a profit-motivated producer.

May/June 2006

70. Which of the following scenarios would result in a movement along the supply curve for wheat, rather than a shift in the supply curve?
(A) The government introduces a new per-bushel subsidy for all wheat farmers.
(B) A rise in the market price of wheat due to increased global demand for bread.
(C) A new, drought-resistant seed is developed, lowering production risk and cost.
(D) The price of fertilizer, a key input for growing wheat, doubles.

Ans :

(B) A rise in the market price of wheat due to increased global demand for bread.
A movement along the supply curve is caused exclusively by a change in the good's own price. A rise in the market price of wheat incentivizes farmers to sell more, causing an upward movement along the existing supply curve. The other options—subsidy, new technology, and input price change—are non-price factors that would shift the entire supply curve.

NODIA

CHAPTER 14

Money Supply & Inflation

Oct/Nov 2014

1. Which of the following is NOT listed as one of the four primary functions of money?
   (A) A medium of exchange
   (B) A generator of credit
   (C) A measure of value
   (D) A standard for deferred payments

   Ans :

   (B) A generator of credit
   The four key functions of money are: a medium of exchange for goods and services, a measure to record the value of goods, a store of value to finance future payments, and a standard for deferred payments in contracts. Generating credit is a function of the banking system, not a primary function of money itself.

May/June 2021

2. How is money utilized as a 'Medium of Exchange'?
   (A) By pricing individual goods, services, and physical assets for trade
   (B) By holding its value over a period of time for future use
   (C) By serving as an agreed measure for future receipts and payments
   (D) By measuring and recording the intrinsic worth of commodities

   Ans :

   (A) By pricing individual goods, services, and physical assets for trade
   As a medium of exchange, money facilitates transactions by providing a common denominator for pricing. Individual goods, services, and other physical assets are 'priced' in terms of money, which is then used to complete the exchange. This function eliminates the inefficiencies of a barter system where a double coincidence of wants is required for trade to occur.

Oct/Nov 2005

3. The function of money that allows it to be held over time to finance future payments is known as:
   (A) A measure of Value
   (B) A standard for Deferred Payments
   (C) A store of value over time
   (D) A medium of Exchange

   Ans :

   (C) A store of value over time
   The 'store of value' function means that money can be saved and held over a period of time to be used for future payments or purchases. This ability to retain purchasing power, albeit subject to inflation, allows individuals and businesses to defer consumption and plan for future financial needs without their wealth being tied to perishable goods.

May/June 2010

4. When money is used as an agreed measure for future receipts and payments in contracts, which function is it performing?
   (A) A store of value over time
   (B) A medium of exchange
   (C) A measure of value
   (D) A standard for deferred payments

   Ans :

   (D) A standard for deferred payments
   This function is crucial for credit and future-oriented transactions. By acting as a standard for deferred payments, money allows for the creation of contracts involving future obligations, such as loans and installment payments. It provides a stable and universally accepted unit for denominating debts and future payments, thereby facilitating lending and borrowing in an economy.

Oct/Nov 2023

5. What does the term 'money supply' refer to in an economic context?
   (A) The total income generated in an economy

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deposits.
(D) Current deposits, demand liabilities portion of savings deposits, and margins held against letters of credit.

Ans :

(D) Current deposits, demand liabilities portion of savings deposits, and margins held against letters of credit.
'Demand deposits' encompass all liabilities of a bank that are payable on demand. This includes not just current deposits but also the demand liability portion of savings bank deposits, margins held against letters of credit or guarantees, balances in overdue fixed deposits, cash certificates, and cumulative/recurring deposits, making it a broad category of on-demand funds.

Oct/Nov 2022

15. According to the definition provided, what is the key characteristic of 'Time deposits'?
(A) They are payable otherwise than on demand.
(B) They are payable on demand.
(C) They include only the time liabilities portion of savings bank deposits.
(D) They are exclusively composed of fixed deposits.

Ans :

(A) They are payable otherwise than on demand.
The defining feature of 'Time deposits' is that they are not payable on demand and have a specific maturity period. This category includes instruments like fixed deposits, cash certificates, cumulative and recurring deposits, and the time liabilities portion of savings bank deposits. They represent funds locked in with the bank for a predetermined duration.

May/June 2005

16. The components of money supply (M_3) are drawn from which side of the banking sector's balance sheet?
(A) The asset side
(B) The liability side
(C) Both the asset and liability sides
(D) The off-balance sheet items

Ans :

(B) The liability side
The components of M_3 (Currency with the public, Demand deposits, Time deposits, 'Other' deposits with RBI) represent the obligations of the banking sector (RBI and commercial banks) to the public. Therefore, these items are drawn from the liability side of the consolidated balance sheet of the banking sector, reflecting what the system owes.

Oct/Nov 2010

17. Which of the following is considered a 'Source' of money supply (M_3) and not a 'Component'?
(A) Demand deposits with banks
(B) Net bank credit to the government
(C) Time deposits with banks
(D) 'Other' deposits with RBI

Ans :

(B) Net bank credit to the government
The sources of money supply are derived from the asset side of the banking sector's balance sheet, representing the uses of funds. Net bank credit to the government is a major source, reflecting lending to the government. In contrast, demand deposits, time deposits, and 'Other' deposits with the RBI are components, appearing on the liability side.

May/June 2021

18. Money Supply (M_3): Sources Side
Net bank credit to the government
+ Bank credit to the commercial sector
+ Net foreign exchange assets of the banking sector
+ Government's currency liabilities to the public
- Net non-monetary liabilities of the banking sector
Based on the provided source information, what is the role of 'Net non-monetary liabilities of the banking sector' in the calculation of M_3 sources?
(A) It is subtracted as an adjustment item.
(B) It is added to bank credit to determine the total assets.
(C) It is a primary component of broad money.
(D) It is equivalent to the government's currency liabilities.

Ans :

(A) It is subtracted as an adjustment item.
The source information clearly shows the composition of the sources side of M_3. While items like bank credit and net foreign assets are added, the 'Net non-monetary liabilities of the banking sector' is explicitly shown with a minus sign. This indicates that it is an adjustment item that is subtracted from the sum of other assets.

NODIA

May/June 2025

10. Broad Money, or M_3, is defined as:
(A) M_1 + Time deposits with the banking system
(B) M_2 + All deposits with post office savings banks
(C) Currency with the public + Demand deposits with the banking system
(D) M_3 + All deposits with post office savings banks (excluding National Savings Certificates)

Ans :

(A) M_1 + Time deposits with the banking system
Broad Money (M_3) is a widely used measure of money supply that includes both highly liquid and less liquid components. It is calculated by adding the net time deposits of the banking system to Narrow Money (M_1). Time deposits, such as fixed deposits, are less liquid than demand deposits but are a significant part of total money stock.

Oct/Nov 2007

11. What is the formula for calculating the money supply measure M_4?
(A) M_1 plus the net time deposits with the banking system (which defines M_3)
(B) M_1 plus the savings deposits held with post office savings banks (which defines M_2)
(C) M_0 plus the total currency in circulation (an invalid monetary aggregate formula)
(D) M_3 plus all deposits with post office savings banks (excluding National Savings Certificates)

Ans :

(D) M_3 plus all deposits with post office savings banks (excluding National Savings Certificates)
M_4 is the broadest measure of money supply mentioned. It incorporates all components of Broad Money (M_3) and adds to it all deposits held with post office savings banks. However, it specifically excludes the amount held in National Savings Certificates (NSCs), distinguishing it from a simple aggregation of all post office deposits.

May/June 2014

12. Reserve Money (M_0) is composed of which of the following components?
(A) Currency with the public + Demand deposits with the banking system (major components of M_1)
(B) Currency in circulation + Bankers' deposits with the RBI + 'Other' deposits with the RBI
(C) M_1 + Net time deposits with the banking system (the definition of M_3)
(D) M_3 + All post office savings deposits, excluding NSCs (the definition of M_4)

Ans :

(B) Currency in circulation + Bankers' deposits with the RBI + 'Other' deposits with the RBI
Reserve Money (M_0), also known as base money or high-powered money, forms the base of the money supply. It consists of currency in circulation (which includes currency with the public and cash held by banks), deposits held by commercial banks with the RBI (as reserves), and 'Other' deposits held with the Reserve Bank of India.

Oct/Nov 2016

13. What is the distinction between 'Currency in circulation' and 'Currency with the public'?
(A) There is no distinction; the terms are interchangeable.
(B) 'Currency in circulation' is 'Currency with the public' less cash held by banks.
(C) 'Currency with the public' is 'Currency in circulation' less cash held by banks.
(D) 'Currency with the public' includes bank reserves, while 'Currency in circulation' does not.

Ans :

(C) 'Currency with the public' is 'Currency in circulation' less cash held by banks.
These two terms are distinct. 'Currency in circulation' refers to the total currency issued by the central bank. 'Currency with the public' is a component of this, representing the currency that is physically held by the public (households and firms) and is calculated by subtracting the cash held in the vaults of commercial banks from the total currency in circulation.

May/June 2018

14. Which of the following items are included in the definition of 'Demand deposits'?
(A) Only current account deposits, which are fully chequable but exclude other on-demand funds.
(B) Only savings bank deposits, which have both demand and time liability portions.
(C) Fixed deposits and recurring deposits, which are classified as time deposits, not demand

NODIA

(A) Nominal GDP / Broad money

The derivation of the velocity of money is explicitly defined. It is calculated as the ratio between the nominal Gross Domestic Product (GDP) and the stock of broad money. This ratio indicates how many times the money stock has been used to finance transactions equivalent to the nominal GDP over a period.

Oct/Nov 2018

25. Which statement correctly differentiates the money multiplier from the velocity of money?

(A) The multiplier is about the speed of transactions, while velocity is about the creation of money.

(B) Both concepts measure the same phenomenon but use different formulas.

(C) The multiplier is the magnitude of base money amplification, while velocity is the turnover rate of the money stock.

(D) The multiplier links money to GDP, while velocity links reserve money to broad money.

Ans :

(C) The multiplier is the magnitude of base money amplification, while velocity is the turnover rate of the money stock.

The money multiplier describes the process of money creation, showing the magnitude by which base money (M_0) is amplified into broad money (M_3). In contrast, velocity of money describes the rate of money usage, showing how many times the available money stock (M_3) turns over to finance transactions equivalent to nominal GDP.

May/June 2023

26. What is the definition of inflation provided in the chapter?

(A) A one-time, sharp increase in the price of a few specific goods, such as fuel or food items.

(B) A sustained, general rise in the average level of prices over a period of time.

(C) A decrease in the purchasing power of money, which is considered a consequence of inflation, not its definition.

(D) An increase in the total money supply by the central bank, which is a potential cause of inflation, not the phenomenon itself.

Ans :

(B) A sustained, general rise in the average level of prices over a period of time.

Inflation is defined not as a temporary price hike or an increase in the price of specific items, but as a 'sustained' and 'general' increase. This means the rise in the average price level of a wide basket of goods and services is persistent over a period, indicating a broad-based economic trend.

Oct/Nov 2009

27. What is the direct consequence of inflation on the value of money?

(A) It increases the real value of the internal medium of exchange.

(B) It leads to an erosion in the purchasing power of money.

(C) It enhances the stability in the real value of money.

(D) It has no effect on the purchasing power of money.

Ans :

(B) It leads to an erosion in the purchasing power of money.

When the general price level rises, each unit of currency (e.g., a rupee) can buy fewer goods and services than it could before. This decline in the quantity of goods a unit of money can purchase is known as an erosion or fall in the purchasing power of money, which is a fundamental consequence of inflation.

May/June 2016

28. Which of the following is mentioned as a potential negative effect of inflation?

(A) Mitigation of economic recessions

(B) Debt relief by reducing the real level of debt

(C) Discouragement of investment and saving due to uncertainty

(D) Increase in the real value of monetary items over time

Ans :

(C) Discouragement of investment and saving due to uncertainty

Several negative effects of inflation are listed. Among them, uncertainty about future inflation can deter both investment and saving. Businesses may be hesitant to make long-term investments, and individuals may find it difficult to save effectively when the future value of their money is unpredictable, leading to economic instability.

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Oct/Nov 2006

19. The money multiplier approach, which explains the expansion of broad money from base money, was pronounced by which economists?
(A) John Maynard Keynes
(B) Adam Smith and David Ricardo
(C) Milton Friedman and Anna Schwartz
(D) Amartya Sen and Jean Drèze

Ans :

(C) Milton Friedman and Anna Schwartz
The money multiplier approach to money supply is explicitly attributed to the work of Milton Friedman and Anna Schwartz in 1963. Their analysis explained the process by which the base money (M_0) created by a central bank is multiplied within the banking system to generate a larger stock of broad money (M_3).

May/June 2019

20. Which of the following is NOT listed as a key determinant of the money multiplier?
(A) Currency to deposit ratio
(B) Required reserves to total deposits ratio
(C) Excess reserves maintained by banks
(D) Nominal GDP growth rate

Ans :

(D) Nominal GDP growth rate
Three key determinants of the money multiplier are identified. These are the currency to deposit ratio (public's behavior), the required reserve ratio (central bank policy), and the excess reserve ratio (commercial banks' behavior). The nominal GDP growth rate is related to the velocity of money, not a direct determinant of the money multiplier itself.

Oct/Nov 2014

21. How is the money multiplier mathematically derived?
(A) Nominal GDP / Broad Money (M_3)
(B) Reserve Money (M_0) / Broad Money (M_3)
(C) Broad Money (M_3) / Reserve Money (M_0)
(D) Currency in circulation / Total deposits

Ans :

(C) Broad Money (M_3) / Reserve Money (M_0)
The money multiplier represents the link between the monetary base and the broader money supply. It quantifies how many units of broad money are created for each unit of reserve money. Therefore, it is calculated as the ratio of Broad Money (M_3) to Reserve Money (M_0), which is expressed as M_3/M_0.

May/June 2012

22. What does the 'velocity of money' measure?
(A) The rate at which the central bank prints new currency
(B) The frequency with which one unit of currency is used for transactions in a specific period
(C) The magnitude by which base money is amplified into broad money
(D) The ratio of broad money to reserve money in the economy

Ans :

(B) The frequency with which one unit of currency is used for transactions in a specific period
The velocity of money measures how many times, on average, a single unit of currency is spent on domestically produced goods and services within a given time frame. It reflects the speed at which money circulates in the economy to finance transactions. A higher velocity suggests that money is changing hands more rapidly.

Oct/Nov 2025

23. The velocity of money establishes a link between which two economic aggregates?
(A) Broad money and reserve money
(B) Reserve money and nominal GDP
(C) Nominal GDP and real GDP
(D) Broad money and nominal GDP

Ans :

(D) Broad money and nominal GDP
Velocity of money is the crucial link connecting the money supply with the total value of economic transactions. It is formally defined as the ratio of nominal Gross Domestic Product (GDP) to the stock of broad money (M_3). This relationship is often expressed in the quantity theory of money equation ($MV = PY$).

May/June 2007

24. What is the correct formula to derive the 'Velocity of Money'?
(A) Nominal GDP / Broad money
(B) Broad money / Reserve money
(C) Broad money / Nominal GDP
(D) Real GDP / Broad money

Ans :

NODIA

over a fiscal year
(B) The flow of money exchanged for goods and services annually
(C) The stock of money available in the economy at a given point of time
(D) The total currency printed by the central bank each month

Ans :

(C) The stock of money available in the economy at a given point of time
Money supply is a stock concept, not a flow concept. It represents the total amount of money, including currency and deposits, that is in circulation within an economy at a specific moment. This is distinct from concepts like national income or GDP, which are flow variables measured over a period of time, such as a year.

May/June 2016

6. On what basis does the Reserve Bank of India (RBI) record and publish money supply data?
(A) On a weekly basis
(B) On a fortnightly basis
(C) On a monthly basis
(D) On a quarterly basis

Ans :

(B) On a fortnightly basis
The Reserve Bank of India is the authority responsible for compiling and disseminating data on the money supply in India. These data are recorded and published on a fortnightly basis, providing regular updates on the monetary aggregates. This information is crucial for policymakers, analysts, and the public to monitor monetary conditions.

Oct/Nov 2011

7. Which of the following economic variables is NOT mentioned as being affected by the money supply?
(A) Price levels
(B) Exchange rates
(C) Business cycles
(D) Demographic trends

Ans :

(D) Demographic trends
Money supply has a significant impact on several key macroeconomic variables. These include the general price level (inflation), foreign exchange rates, and the fluctuations of business cycles. It may also affect the growth of GDP. However, demographic trends, such as population growth or age structure, are not directly mentioned as being influenced by money supply.

May/June 2007

8. Which of the following correctly represents the composition of Narrow Money (M_1)?
(A) Currency with the public + Demand deposits with the banking system + 'Other' deposits with the RBI
(B) Currency with the public + Time deposits with the banking system
(C) Currency in circulation + Bankers' deposits with the RBI
(D) M_3 + All deposits with post office savings banks

Ans :

(A) Currency with the public + Demand deposits with the banking system + 'Other' deposits with the RBI
Narrow Money, denoted as M_1, is a measure of the most liquid forms of money. It is defined as the sum of three components: currency held by the public, demand deposits held with the commercial banking system, and 'Other' deposits held with the Reserve Bank of India. This represents money readily available for transactions.

Oct/Nov 2019

9. How is the money supply measure M_2 calculated?
(A) M_3 + All deposits with post office savings banks
(B) M_1 + Time deposits with the banking system
(C) M_1 + Savings deposits of post office savings banks
(D) Currency in circulation + Bankers' deposits with the RBI

Ans :

(C) M_1 + Savings deposits of post office savings banks
The money supply measure M_2 is a broader concept than M_1. It is calculated by adding the savings deposits held with post office savings banks to the total of Narrow Money (M_1). This includes a less liquid component compared to M_1, as post office savings are not as readily accessible as commercial bank demand deposits.

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Oct/Nov 2023

29. According to the text, what is a potential positive effect of inflation?
(A) Shortages of goods due to hoarding
(B) Loss in stability in the real value of money
(C) Mitigation of economic recessions
(D) Discouragement of investment and saving

Ans :

(C) Mitigation of economic recessions
While inflation often has negative consequences, a few potential positive effects are mentioned. One such effect is the mitigation of economic recessions. A moderate level of inflation can help stimulate spending and investment, and it can also allow real wages to adjust downwards more easily, potentially reducing unemployment during a downturn.

May/June 2022

30. What is Demand-Pull inflation?
(A) Inflation caused by substantial increases in the cost of production
(B) A rise in general prices caused by increasing aggregate demand for goods and services
(C) Inflation caused by a decline in the money supply
(D) A rise in prices due to a shortage of a single key input like oil

Ans :

(B) A rise in general prices caused by increasing aggregate demand for goods and services
Demand-pull inflation occurs when the total demand for goods and services in an economy exceeds the total supply. This "too much money chasing too few goods" scenario puts upward pressure on prices across the board. An increase in the quantity of money in the hands of people is cited as a primary driver of this type of inflation.

Oct/Nov 2020

31. What is the primary characteristic of Cost-Push inflation?
(A) It is caused by an increase in aggregate demand.
(B) It results from an increasing quantity of money in the hands of people.
(C) It is caused by substantial increases in the cost of production of important goods.
(D) It occurs when aggregate supply perfectly follows aggregate demand.

Ans :

(C) It is caused by substantial increases in the cost of production of important goods.
Cost-push inflation originates from the supply side of the economy. It happens when the costs of producing key goods or services rise significantly, for instance, due to an increase in the price of essential inputs like oil. Producers pass these higher costs on to consumers in the form of higher prices, or they reduce output.

May/June 2011

32. A country experiences a sharp, unexpected increase in global oil prices. As a result, transportation and manufacturing costs rise significantly for most businesses. Firms respond by increasing the prices of their final products. This scenario is a classic example of:
(A) Demand-Pull Inflation
(B) Cost-Push Inflation
(C) Hyperinflation
(D) Deflation

Ans :

(B) Cost-Push Inflation
This case describes a situation where inflation is triggered by a rise in the cost of a key input (oil), which is a "substantial increase in the cost of production". This pressure from the supply side, where producers pass on higher costs to consumers, is the defining characteristic of cost-push inflation.

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Oct/Nov 2012

33. How is the general price level in an economy typically measured?
(A) By the total money supply
(B) By the exchange rate
(C) By a price index
(D) By the GDP growth rate

Ans :

(C) By a price index
The general price level is measured by a price index. A price index is a statistical measure that tracks the weighted average of the prices of a selected basket of goods and services over time. The movement of this index, often reported as the inflation rate, indicates the change in the general price level.

(D) Services

Ans :

(D) Services
The WPI measures the price of goods traded at the wholesale level. Its main commodity groups are Primary Articles, Fuel & Power, and Manufactured Products. A key limitation of the WPI is that it does not include services, which are a major component of the economy and are captured by indices like the CPI.

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(A) The underlying inflation trend calculated by excluding volatile food and fuel prices from a headline index.
Core inflation is a measure designed to reveal the underlying or trend inflation in an economy. It is calculated by taking the headline inflation rate (like CPI) and excluding the prices of food and energy (fuel). These components are removed because their prices tend to be highly volatile and can obscure the long-term inflation trend.

Oct/Nov 2008

39. What is the base year for the current Consumer Price Index (CPI) series mentioned in the text?
(A) 2004-05
(B) 2011-12
(C) 2012
(D) 1960

Ans :

(C) 2012
The current Consumer Price Index (CPI) series has a base year of 2012, which is set to 100. This base year serves as the reference point against which price changes in subsequent periods are measured to calculate the index and the corresponding inflation rate.

May/June 2024

40. According to the text, how is price data for the CPI collected by the NSO?
(A) Through direct field surveys conducted by staff in selected urban and rural markets.
(B) Through automated online surveys sent to a large sample of national retailers and service providers.
(C) By aggregating publicly available price data from major e-commerce websites and online marketplaces.
(D) By using wholesale price data as a base and applying a statistically derived retail margin to estimate prices.

Ans :

(A) Through direct field surveys conducted by staff in selected urban and rural markets.
The NSO collects price data for the CPI through a rigorous field survey process. Field staff from the Field Operations Division of NSO, MoSPI, conduct personal visits to 1114 selected urban markets and 1181 selected villages across all States and UTs on a weekly roster to gather the price information directly at the retail level.

NODIA

Oct/Nov 2021

41. Which price index does the Reserve Bank of India (RBI) primarily take into account for its monetary policy decisions?
(A) Wholesale Price Index (WPI)
(B) GDP Deflator
(C) Index of Industrial Production (IIP)
(D) Consumer Price Index (CPI)

Ans :

(D) Consumer Price Index (CPI)
The Reserve Bank of India (RBI) explicitly takes into account the CPI price change in its monetary policy decisions. Since April 2014, the RBI has adopted the new CPI (Combined) as the key measure of inflation for policy purposes, shifting its focus from the WPI.

May/June 2013

42. All India Consumer Price Indices (Base: 2012=100)

Description	Rural (%)	Urban (%)	Combined (%)
Housing	-	21.67	10.07

Based on the provided table, why is there no weight assigned to 'Housing' in the Rural CPI basket?
(A) Due to a high percentage of homeownership, rental expenditure is considered statistically insignificant in the rural basket.
(B) Housing costs in rural areas are considered negligible in value and are therefore completely excluded from all calculations.
(C) Rural housing data is compiled separately by the Ministry of Rural Development and not integrated into the CPI.
(D) The weight for rural housing is implicitly combined within the 'Miscellaneous' category to simplify the index.

Ans :

(A) Due to a high percentage of homeownership, rental expenditure is considered statistically insignificant in the rural basket.
The dash (-) in the 'Rural' column for the 'Housing' category indicates that it has zero weight in the Rural CPI basket. This is because the index methodology imputes housing rent from house rent survey data, and a very high percentage of the rural population lives in their

own dwellings, not rented ones, making rental expenditure statistically insignificant.

Oct/Nov 2015

43. All India Consumer Price Indices (Base: 2012=100)

Description	Rural (%)	Urban (%)	Combined (%)
Food and beverages	54.18	36.29	45.86
Miscellaneous	27.26	29.53	28.32

According to Table which statement accurately compares the weights of 'Food and beverages' and 'Miscellaneous' items in the Rural and Urban CPI baskets?

(A) 'Food and beverages' have a higher weight in the Urban basket than in the Rural basket.
(B) 'Miscellaneous' items have a higher weight in the Rural basket than in the Urban basket.
(C) The weights for both categories are nearly identical in Rural and Urban baskets.
(D) 'Food and beverages' have a significantly higher weight in the Rural basket compared to the Urban basket.

Ans :

(D) 'Food and beverages' have a significantly higher weight in the Rural basket compared to the Urban basket.
The table shows that the weight for 'Food and beverages' is 54.18% in the Rural CPI basket, which is substantially higher than its 36.29% weight in the Urban basket. This reflects the different consumption patterns, where food constitutes a larger portion of expenditure for rural households compared to urban households.

May/June 2020

44. What is the weight of the Consumer Food Price Index (CFPI) in the combined (Rural + Urban) CPI basket?

(A) 47.25%
(B) 39.06%
(C) 29.62%
(D) 45.86%

Ans :

(B) 39.06%
The table "All India Consumer Price Indices" provides a specific row for the Consumer Food Price Index (CFPI). Looking at the 'Combined' column for this row, the weight assigned to the CFPI is explicitly stated as 39.06%. This highlights the significant contribution of food prices to the overall combined inflation measure.

Oct/Nov 2005

45. Which of the following is NOT one of the three different index numbers of consumer prices mentioned?

(A) CPI for industrial workers (CPI-IW)
(B) CPI for agricultural labourers (CPI-AL)
(C) CPI for service sector employees (CPI-SE)
(D) CPI (Rural), CPI (Urban) and CPI (Combined)

Ans :

(C) CPI for service sector employees (CPI-SE)
The text lists three distinct types of consumer price indices. These are: CPI for industrial workers (CPI-IW); CPI for agricultural labourers (CPI-AL)/rural labourers (RW); and the main series of CPI (Rural), CPI (Urban), and CPI (Combined). A specific index for service sector employees (CPI-SE) is not mentioned in this list.

May/June 2017

46. The Dearness Allowance for bank employees is calculated based on which specific index?

(A) The All India CPI (Combined) with Base 2012=100, which serves as the RBI's primary inflation metric.
(B) The Wholesale Price Index (WPI) with Base 2011-12=100, used for tracking producer-level price changes.
(C) The GDP Deflator, which is derived from national accounts data and released on a quarterly basis.
(D) The All India Average Consumer Price Index for Industrial Workers (CPI-IW) with Base 1960=100.

Ans :

(D) The All India Average Consumer Price Index for Industrial Workers (CPI-IW) with Base 1960=100.
The text explicitly states that the Dearness Allowance for Workmen and Officer Employees in banks is calculated based on the "All India Average Consumer Price Index for Industrial Workers with Base 1960 = 100". This specific index (CPI-IW) is used for wage and allowance adjustments for organized sector workers, including those in banking.

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Oct/Nov 2024

47. What is the primary focus of the Wholesale Price Index (WPI)?

(A) Prices of goods and services bought by consumers at the retail level

(B) Prices of goods traded between corporations at the wholesale stage

(C) Prices of all domestically produced final goods and services

(D) Prices of agricultural commodities at the farm gate

Ans :

(B) Prices of goods traded between corporations at the wholesale stage

Unlike the CPI, which focuses on retail prices paid by consumers, the WPI reflects price changes at the wholesale level. It measures the price of goods traded in bulk between businesses, before they reach the final consumer. This makes it a key indicator for price movements in industry, manufacturing, and construction sectors.

May/June 2010

48. Which government body releases the index numbers of wholesale price (WPI) in India?

(A) The National Statistical Office (NSO), under the Ministry of Statistics and Programme Implementation (MoSPI).

(B) The Office of the Economic Advisor, under the Department for Promotion of Industry and Internal Trade (DPIIT).

(C) The Reserve Bank of India (RBI), which is India's independent central banking institution.

(D) The Labour Bureau, under the Ministry of Labour and Employment, which compiles the CPI-IW.

Ans :

(B) The Office of the Economic Advisor, under the Department for Promotion of Industry and Internal Trade (DPIIT).

The responsibility for compiling and releasing the Wholesale Price Index (WPI) in India lies with the Office of the Economic Advisor, which is part of the Department for Promotion of Industry and Internal Trade (DPIIT), under the Ministry of Commerce and Industry. This is distinct from the NSO, which handles the CPI.

Oct/Nov 2011

49. What is the base year for the Wholesale Price Index (WPI) series mentioned in the chapter?

(A) 2012

(B) 2017-18

(C) 1960

(D) 2011-12

Ans :

(D) 2011-12

The base year for the Wholesale Price Index (WPI) being discussed is 2011-12. This base year is the reference point against which wholesale price levels are compared. It is also noted that the government is in the process of migrating to a new series with a base of 2017-18.

May/June 2009

50. Which commodity group has the highest weight in the WPI basket with a base year of 2011-12?

(A) Primary Articles (Weight 22.6%)

(B) Manufactured Products (Weight 64.2%)

(C) Fuel & Power (Weight 13.2%)

(D) Food Index (Weight 24.4%)

Ans :

(B) Manufactured Products (Weight 64.2%)

The WPI basket is divided into three major commodity groups. According to the weights provided, 'Manufactured Products' has the largest share at 64.2%. This is significantly higher than the weights for 'Primary Articles' (22.6%) and 'Fuel & Power' (13.2%), indicating the dominance of industrial goods in the WPI calculation.

Oct/Nov 2019

51. Since April 2014, what has been the Reserve Bank of India's stance on using CPI versus WPI for policy purposes?

(A) It has adopted the CPI (combined) as the key measure of inflation.

(B) It gives equal weightage to both CPI and WPI.

(C) It has continued to give more weightage to WPI.

(D) It has switched to using the GDP deflator exclusively.

Ans :

(A) It has adopted the CPI (combined) as the key measure of inflation.

There has been a significant policy shift by the RBI. Since April 2014, the central bank has

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adopted the new Consumer Price Index (CPI) (combined) as its primary or key measure of inflation for all policy purposes. This marks a change from its earlier practice of giving more weightage to the Wholesale Price Index (WPI).

May/June 2025

52. What does the Index of Industrial Production (IIP) measure?
(A) The level of industrial activities
(B) The price level of industrial goods
(C) The profitability of the manufacturing sector
(D) The export volume of industrial products

Ans :

(A) The level of industrial activities
The Index of Industrial Production (IIP) is a volume-based index, not a price index. It measures the growth rates in different industry groups of the economy over a stipulated period. It reflects the level of industrial activities, with major groups being Mining, Manufacturing, and Electricity, and is released monthly by the NSO.

Oct/Nov 2007

53. Which of the following statements about the GDP deflator is correct?
(A) It is based on a fixed basket of goods and services.
(B) It measures the prices of all new, domestically produced, final goods and services.
(C) It is considered a less comprehensive measure of inflation than CPI or WPI.
(D) It is released on a monthly basis along with CPI and WPI.

Ans :

(B) It measures the prices of all new, domestically produced, final goods and services.
The GDP deflator, or implicit price deflator, has the broadest coverage of all inflation measures. It reflects the price level of the entire range of new, final goods and services produced domestically in an economy. This is in contrast to CPI and WPI, which are based on limited, fixed baskets of commodities.

May/June 2014

54. Why is the GDP deflator considered a more comprehensive measure of inflation?
(A) It covers the entire range of goods and services produced in the economy.
(B) It includes prices of imported goods.
(C) It is based on a fixed commodity basket updated annually.
(D) It is published more frequently than CPI and WPI.

Ans :

(A) It covers the entire range of goods and services produced in the economy.
The comprehensiveness of the GDP deflator stems from its scope. Unlike CPI and WPI, which use fixed baskets, the deflator's basket includes all goods and services that are part of the GDP. Its basket also changes automatically each year to reflect current consumption and investment patterns, making it a dynamic measure of economy-wide inflation.

Oct/Nov 2016

55. What is the frequency of availability for the GDP deflator data?
(A) Weekly
(B) Monthly
(C) Quarterly
(D) Annually

Ans :

(C) Quarterly
A key limitation of the GDP deflator compared to other indices is its frequency. The GDP deflator is available only on a quarterly basis, as it is released along with the quarterly GDP estimates. In contrast, both CPI and WPI data are released every month, providing more timely inflation updates.

May/June 2018

56. How is the GDP Price Deflator calculated?
(A) $(\text{Real GDP}/\text{Nominal GDP}) \times 100$
(B) $(\text{Nominal GDP}/\text{Real GDP}) \times 100$
(C) $(\text{Nominal GDP} - \text{Real GDP})/\text{Real GDP}$
(D) $(\text{CPI} + \text{WPI})/2$

Ans :

(B) $(\text{Nominal GDP}/\text{Real GDP}) \times 100$
The GDP price deflator is calculated as the ratio of nominal GDP to real GDP, multiplied by 100. Nominal GDP is the market value of goods and services at current prices, while real GDP is the value at constant (base-year) prices. This ratio effectively measures the change in prices for all goods and services produced.

NODIA

Oct/Nov 2022

57. An economy's nominal GDP for a year is ₹200 trillion, and its real GDP for the same year is ₹160 trillion. Using the standard formula for the GDP deflator, what is the value of the deflator?

(A) 125
(B) 80
(C) 120
(D) 25

Ans :

(A) 125
The GDP Price Deflator is calculated as

$$(\text{Nominal GDP}/\text{Real GDP}) \times 100.$$

In this case, it would be

$$(200 \text{ trillion}/160 \text{ trillion}) \times 100.$$

This simplifies to 1.25×100, which equals 125. This indicates that the overall price level has increased by 25% since the base year used for calculating the real GDP.

May/June 2005

58. Assertion (A): The basket of goods and services for the GDP deflator is not fixed.
Reason (R): The deflator's basket automatically includes all goods produced domestically in a given year, weighted by the market value of total consumption of each good.

(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.
The assertion that the GDP deflator's basket is not fixed is true. The reason correctly explains why: the basket is the set of all domestically produced goods in that specific year, reflecting current expenditure patterns. This dynamic nature is a key feature that distinguishes it from the fixed-basket CPI and WPI indices.

Oct/Nov 2010

59. Which of the following statements is INCORRECT regarding the measures of money supply?

(A) $M_3 = M_1$ + Time deposits with the banking system.
(B) $M_4 = M_3$ + All deposits with post office savings banks, including National Savings Certificates.
(C) $M_2 = M_1$ + Savings deposits of post office savings banks.
(D) M_1 includes Currency with the public, Demand deposits, and 'Other' deposits with the RBI.

Ans :

(B) $M_4 = M_3$ + All deposits with post office savings banks, including National Savings Certificates.
The definition for M_4 explicitly states that it is calculated as M_3 plus all deposits with post office savings banks, but it specifically excludes National Savings Certificates (NSCs). Therefore, the statement that it includes NSCs is incorrect. The other statements accurately represent the definitions of M_1, M_2, and M_3.

May/June 2021

60. Match List-I (Concept) with List-II (Description).

	List I		List II
P.	Money Multiplier	1.	Ratio of Nominal GDP to Broad Money
Q.	Velocity of Money	2.	Inflation excluding food and fuel
R.	Core Inflation	3.	Ratio of Broad Money to Reserve Money
S.	Demand-Pull Inflation	4.	Caused by increasing aggregate demand

Select the correct code:
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-1, Q-4, R-2, S-3

Ans :

(A) P-3, Q-1, R-2, S-4
P. Money Multiplier is the ratio of Broad Money to Reserve Money (M_3/M_0). Q. Velocity of Money is the ratio of Nominal GDP to Broad Money. R. Core Inflation is headline inflation excluding volatile food and fuel items. S. Demand-Pull Inflation is caused by excess aggregate demand. The correct matching is therefore P-3, Q-1, R-2, S-4.

Oct/Nov 2006

61. Consider the following regarding inflation:
1. It leads to a fall in the purchasing power of

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May/June 2015

34. An analyst is tasked with calculating the annual inflation rate for May 2022. The price index for May 2022 is 183.40, and the price index for May 2021 was 176.20. Using the formula provided in the chapter, what is the calculated inflation rate?
(A) 4.09%
(B) 7.20%
(C) 3.93%
(D) 4.25%

Ans :

(A) 4.09%
The formula for the annual rate of inflation is
$$\frac{(\text{Current Year Index} - \text{Previous Year Index})}{\text{Previous Year Index}} \times 100$$
Plugging in the values:
$$= \frac{183.40 - 176.20}{176.20} \times 100$$
$$= \frac{7.20}{176.20} \times 100$$
$$\approx 4.09\%.$$

Oct/Nov 2013

35. Which of the following is NOT listed as one of the most important price indices?
(A) Consumer Price Index (CPI)
(B) Wholesale Price Index (WPI)
(C) GDP deflator
(D) Producer Price Index (PPI)

Ans :

(D) Producer Price Index (PPI)
The chapter explicitly lists three main price indices used for measuring inflation: the Consumer Price Index (CPI), the Wholesale Price Index (WPI), and the GDP deflator. While the Producer Price Index (PPI) is an important economic indicator in many countries, it is not mentioned in this specific list within the provided text.

May/June 2008

36. What does the Consumer Price Index (CPI) primarily measure?
(A) The change in prices of goods traded between corporations, which is measured by the Wholesale Price Index (WPI).
(B) The change in the price of a representative basket of consumer goods and services at the retail level.
(C) The level of prices of all new, domestically produced, final goods and services, which is measured by the GDP deflator.
(D) The price of industrial inputs and raw materials at the production stage, which is a component of the WPI.

Ans :

(B) The change in the price of a representative basket of consumer goods and services at the retail level.
The CPI is designed to measure inflation as experienced by consumers. It tracks the change in the prices of a fixed basket of goods and services that are purchased or consumed by households. Therefore, it measures price changes at the retail level, making it a relevant indicator for the cost of living for the general population.

NODIA

Oct/Nov 2017

37. Which organization is responsible for releasing information on the CPI in India?
(A) National Statistical Office (NSO)
(B) Reserve Bank of India (RBI)
(C) Department for Promotion of Industry and Internal Trade
(D) Ministry of Finance

Ans :

(A) National Statistical Office (NSO)
The National Statistical Office (NSO) is the agency that releases information on the Consumer Price Index (CPI) on a monthly basis. The NSO, part of the Ministry of Statistics and Programme Implementation (MoSPI), is responsible for the collection and publication of these crucial inflation statistics.

May/June 2006

38. What is 'Core Inflation'?
(A) The underlying inflation trend calculated by excluding volatile food and fuel prices from a headline index.
(B) The specific inflation rate that includes only the volatile food and energy price components.
(C) The headline inflation rate as calculated directly using the GDP deflator, which is a separate, broad measure.
(D) The overall or 'headline' inflation rate, which includes all components of the price index without exclusion.

Ans :

for bank DA calculation is 1960. However, it is mentioned that the government is in the process of migrating to a new WPI series with a base of 2017-18, not 2014-15.

May/June 2007

66. Consider the following two statements:
Statement I: The GDP deflator is available on a monthly basis.
Statement II: The CPI and WPI data are released every month.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is incorrect, but Statement II is correct.
(D) Statement I is correct, but Statement II is incorrect.

Ans :

(C) Statement I is incorrect, but Statement II is correct.
The GDP deflator is available only on a quarterly basis along with GDP estimates. This makes Statement I incorrect. CPI and WPI data are released every month, making Statement II correct.

Oct/Nov 2018

67. Which of the following correctly identifies a component from the 'Components Side' of M_3 and a source from the 'Sources Side' of M_3?
(A) Component: Net bank credit to the government; Source: Time deposits with banks
(B) Component: Time deposits with banks; Source: Net foreign exchange assets of the banking sector
(C) Component: Bank credit to the commercial sector; Source: 'Other' deposits with RBI
(D) Component: Net non-monetary liabilities; Source: Currency with the public

Ans :

(B) Component: Time deposits with banks; Source: Net foreign exchange assets of the banking sector
Time deposits with banks are a liability of the banking system and thus a component of M_3. Net foreign exchange assets are an asset of the banking system and are listed as a source of M_3. The other options incorrectly swap or misclassify components and sources.

May/June 2023

68. Assertion (A): The weight of 'Food and beverages' is higher in the Rural CPI basket than in the Urban CPI basket.
Reason (R): Rural households typically spend a larger proportion of their total expenditure on food items compared to urban households.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.
The assertion (A) is a fact presented in the data (54.18% for Rural vs 36.29% for Urban). The reason (R) provides the standard economic explanation for this difference in weights, which is that food constitutes a larger share of the budget for lower-income or rural households. Thus, R correctly explains A.

Oct/Nov 2009

69. Which of the following is the most accurate description of the relationship between Reserve Money (M_0) and Broad Money (M_3)?
(A) M_0 acts as the base which is amplified into M_3 through the money multiplier process.
(B) M_0 is a component of M_3.
(C) M_3 is a component of M_0.
(D) M_0 and M_3 are independent measures of money with no direct relationship.

Ans :

(A) M_0 acts as the base which is amplified into M_3 through the money multiplier process.
Reserve Money (M_0) is described as "base money". The money multiplier process shows how this base money, created by the central bank, multiplies within the banking system to become the larger stock of Broad Money (M_3). This shows a direct, causal relationship where M_0 is the foundation for M_3.

May/June 2016

70. All of the following are included in the WPI commodity groups EXCEPT:
(A) Primary Articles
(B) Fuel & Power
(C) Manufactured Products

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money.
2. It can provide debt relief by reducing the real level of debt.
3. High inflation may lead to shortages of goods if consumers begin hoarding.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(D) 1, 2 and 3
All three points are mentioned as effects of inflation. Inflation erodes purchasing power (a primary consequence). It is also listed as having positive effects like debt relief (as the real value of fixed debt decreases) and negative effects like causing shortages due to hoarding by consumers who expect prices to rise further. All three statements are correct.

May/June 2019

62. "The CPI reflects the change in the level of prices of a basket of goods and services purchased/consumed by the households. It measures the prices at the retail level. This is the measure of inflation more relevant for the consumers."
Based on this excerpt, why is CPI considered more relevant for consumers than WPI?
(A) Because it is released by the NSO.
(B) Because it has a higher weight for manufactured products.
(C) Because it is used by the RBI for monetary policy.
(D) Because it measures prices at the retail level where consumers make purchases.

Ans :

(D) Because it measures prices at the retail level where consumers make purchases.
The excerpt explicitly states that the CPI measures prices of a basket of goods "purchased/consumed by the households" and measures prices "at the retail level". It directly concludes that this makes it the measure of inflation "more relevant for the consumers". This is the direct reason provided in the source text.

Oct/Nov 2014

63. A central bank observes that its base money (M_0) is ₹5 trillion. The total stock of broad money (M_3) in the economy is found to be ₹27.5 trillion. Based on these figures, what is the value of the money multiplier in the economy?
(A) 5.5
(B) 5.0
(C) 0.18
(D) 32.5

Ans :

(A) 5.5
The money multiplier is the link between reserve money and broad money, derived as "broad money/reserve money" (M_3/M_0). In this case, the calculation is ₹27.5 trillion divided by ₹5 trillion. The result is 5.5, which means that each unit of reserve money has been multiplied to create 5.5 units of broad money in the banking system.

May/June 2012

64. A commercial bank is reviewing its liabilities. It holds ₹500 crore in current accounts, ₹1,200 crore in fixed deposits with a 2-year tenure, and ₹300 crore in the demand liability portion of its savings accounts. According to the definitions in the chapter, what is the total amount of 'Demand deposits' held by this bank?
(A) ₹500 crore
(B) ₹800 crore
(C) ₹1,700 crore
(D) ₹2,000 crore

Ans :

(B) ₹800 crore
'Demand deposits' include all liabilities payable on demand. Based on the case, this would include the current accounts (₹500 crore) and the demand liabilities portion of savings bank deposits (₹300 crore). The fixed deposits are 'Time deposits'. Therefore, the total demand deposits are ₹500 + ₹300 = ₹800 crore.

Oct/Nov 2025

65. Which of the following pairs is INCORRECTLY matched?
(A) WPI Base Year : 2011-12
(B) Proposed New WPI Base Year : 2014-15
(C) CPI Base Year : 2012
(D) Bank DA Calculation Base Year : 1960

Ans :

(B) Proposed New WPI Base Year : 2014-15
The WPI base year is 2011-12, the CPI base year is 2012, and the base year for the CPI-IW used

NODIA

CHAPTER 15
Theories of Interest

Oct/Nov 2012

1. What are the three distinct elements that constitute the payment known as interest?
(A) Payment for risk, payment for inflation, and payment for capital
(B) Payment for risk, payment for trouble involved, and pure interest
(C) Payment for opportunity cost, payment for trouble involved, and gross interest
(D) Payment for liquidity, payment for risk, and payment for time preference

Ans :

(B) Payment for risk, payment for trouble involved, and pure interest
Interest is a composite payment. It includes compensation for the risk undertaken by the lender in making the loan, a fee for the administrative trouble and inconvenience involved in the lending process, and pure interest, which is the fundamental payment made solely for the borrower's use of the money over a period.

May/June 2005

2. According to the Classical Theory of the rate of interest, what primarily determines the rate of interest?
(A) The equilibrium of demand and supply of savings
(B) The demand for and supply of money
(C) The level of government intervention and fiscal policy
(D) The expected rate of future inflation

Ans :

(A) The equilibrium of demand and supply of savings
The Classical Theory posits that the rate of interest is a real phenomenon, determined by the interaction of real factors. Specifically, it is the price that equilibrates the supply of savings, which comes from households abstaining from consumption, and the demand for those savings for investment purposes by businesses, under conditions of perfect competition.

Oct/Nov 2024

3. The Classical Theory of interest is also known by which of the following names?
(A) The Liquidity Preference Theory of Interest
(B) The Monetary Theory of Interest
(C) The Real Theory of Interest
(D) The Loanable Funds Theory of Interest

Ans :

(C) The Real Theory of Interest
The Classical Theory is referred to as the Real Theory of Interest because it asserts that the interest rate is determined exclusively by real factors, namely the productivity of capital (influencing investment demand) and thrift or time preference (influencing savings supply). It does not consider monetary factors as determinants of the interest rate.

May/June 2011

4. In the context of the Classical Theory, what is the relationship between the demand for investment and the rate of interest?
(A) They are directly and positively related.
(B) They have no functional relationship.
(C) The relationship is determined by the money supply.
(D) They are inversely and negatively related.

Ans :

(D) They are inversely and negatively related.
According to the Classical Theory, the demand for capital for investment is inversely related to the rate of interest. This is because firms will only undertake an investment if its expected return (marginal productivity of capital) is greater than or equal to the cost of borrowing (the interest rate). As interest rates rise, fewer projects are profitable.

Oct/Nov 2018

5. According to the law of diminishing returns as applied to capital investment, what happens to marginal productivity with increased investment?
(A) It increases at an increasing rate.

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Oct/Nov 2025

15. Which of the following is NOT one of the three motives for holding cash distinguished by Keynes?
(A) Investment Motive
(B) Transaction Motive
(C) Precautionary Motive
(D) Speculative Motive

Ans :

(A) Investment Motive
Keynes identified three primary reasons, or motives, for the demand to hold money (liquidity preference). These are the transaction motive (for daily purchases), the precautionary motive (for unforeseen contingencies), and the speculative motive (to profit from future changes in interest rates). The term 'Investment Motive' is not part of this classification.

May/June 2018

16. The demand for money to bridge the gap between income receipts and planned expenditures for individuals and businesses is known as the:
(A) Speculative Motive
(B) Transactions Motive
(C) Precautionary Motive
(D) Portfolio Motive

Ans :

(B) Transactions Motive
The transactions motive refers to the need to hold cash for conducting current transactions. For individuals, this is the income motive, covering daily expenses between paychecks. For businesses, it is the business motive, covering immediate payments for inputs like raw materials and wages before revenue is received from sales.

Oct/Nov 2010

17. Holding cash balances to cover unexpected expenses like illness, accidents, or unemployment relates to which motive?
(A) Transactions Motive
(B) Precautionary Motive
(C) Speculative Motive
(D) Income Motive

Ans :

(B) Precautionary Motive
The precautionary motive arises from the need to have money available for unforeseen emergencies or unexpected opportunities. Individuals hold cash for contingencies such as accidents or job loss, while businesses maintain cash reserves to navigate difficult periods or seize sudden profitable chances. It is a buffer against uncertainty in the future.

May/June 2006

18. According to Keynes, what is the primary purpose of the speculative demand for money?
(A) To profit from expected changes in interest rates or bond prices.
(B) To facilitate routine and predictable day-to-day transaction needs.
(C) To accumulate funds for a specific, planned future purchase.
(D) To protect the purchasing power of assets from the risk of inflation.

Ans :

(A) To profit from expected changes in interest rates or bond prices.
The speculative motive refers to holding liquid cash to take advantage of expected future movements in the financial markets. Specifically, it involves speculating on the future direction of interest rates and, by extension, bond prices. Individuals hold more money when they expect interest rates to rise (and bond prices to fall).

Oct/Nov 2019

19. If an investor expects interest rates to rise in the future, what action would they most likely take according to the speculative motive?
(A) Buy more bonds.
(B) Invest in real estate.
(C) Sell their existing bonds and hold more cash.
(D) Maintain their current portfolio of bonds and cash.

Ans :

(C) Sell their existing bonds and hold more cash.
A rise in future interest rates implies a fall in future bond prices. To avoid the capital loss from holding bonds as their price declines, a speculative investor would sell their bonds now while prices are relatively high and hold more cash. This increases the speculative demand for money in anticipation of rising interest rates.

May/June 2020

20. What is the relationship between the rate of interest and the speculative demand for money?
(A) They are directly related.

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(A) The theory incorrectly defines interest as a reward for saving, rather than for parting with liquidity.
(B) The theory overemphasized the role of monetary factors while ignoring real determinants like thrift.
(C) The theory was based on the flawed assumption that investment is completely insensitive to interest rate changes.
(D) The theory posited that the level of savings is determined by income, not the interest rate.

Ans :

(A) The theory incorrectly defines interest as a reward for saving, rather than for parting with liquidity.
Keynes fundamentally disagreed with the classical definition of interest. He argued that interest is not a reward for saving but a purely monetary phenomenon. He defined it as the reward for parting with liquidity, i.e., giving up the convenience and security of holding cash, rather than a reward for the act of not consuming income.

Oct/Nov 2015

11. According to Keynes, which factor has a greater influence on the level of savings than the rate of interest?
(A) The marginal efficiency of capital
(B) Future expectations of inflation
(C) The productivity of labor
(D) The level of income

Ans :

(D) The level of income
A key criticism by Keynes was that savings are not highly responsive to changes in the interest rate. Instead, he argued that the level of savings is primarily determined by the level of income. As income rises, people have a greater capacity to save, and vice versa, making savings more a function of income than of interest rates.

May/June 2022

12. In his Liquidity Preference Theory, what did J.M. Keynes propose as the determinants of the rate of interest?
(A) The productivity of capital and the propensity to save
(B) The demand for money and the supply of money
(C) The level of employment and the marginal efficiency of capital
(D) The rate of inflation and government fiscal policy

Ans :

(B) The demand for money and the supply of money
In his book "The General Theory of Employment, Interest and Money," Keynes presented the Liquidity Preference Theory. It states that the rate of interest is determined in the money market by the interplay of the total demand for money (liquidity preference) and the total supply of money, which is fixed by the monetary authority.

Oct/Nov 2007

13. In Keynes' simplified two-asset economy model, what are the two assets people can hold in their portfolio?
(A) Stocks and real estate
(B) Gold and foreign currency
(C) Money and long-term bonds
(D) Savings deposits and corporate debentures

Ans :

(C) Money and long-term bonds
To explain interest rate determination, Keynes assumed a simplified economy where wealth can be held in only two forms: money (currency and current deposits, which earn no interest) and long-term bonds (which earn interest). The decision to balance a portfolio between these two assets is central to his theory of money demand.

May/June 2014

14. What is the relationship between the market rate of interest and the price of bonds as explained in Keynes' theory?
(A) They are directly related.
(B) They are unrelated.
(C) They are parallel to each other.
(D) They are inversely related.

Ans :

(D) They are inversely related.
A crucial aspect of Keynes' framework is the inverse relationship between the rate of interest and bond prices. When the market interest rate falls, existing bonds with their fixed higher coupon rates become more attractive, and their price is bid up. Conversely, when the market interest rate rises, existing bonds become less attractive, causing their prices to fall.

NODIA

200 crores. This situation creates an excess supply of money, as people do not wish to hold as much cash as is available in the economy.

Oct/Nov 2014

25. Assume the money market is in disequilibrium with the interest rate at 12%, higher than the equilibrium rate of 10%. People find they are holding more money than they desire. In a two-asset economy (money and bonds), what is the sequence of events that restores equilibrium?
(A) People sell bonds, bond prices rise, and the interest rate falls.
(B) People buy bonds, bond prices fall, and the interest rate rises.
(C) People buy bonds, bond prices rise, and the interest rate falls.
(D) People sell bonds, bond prices fall, and the interest rate rises.

Ans :

(C) People buy bonds, bond prices rise, and the interest rate falls.
With an excess supply of money at 12%, individuals will try to get rid of their unwanted cash by purchasing the other asset, which is bonds. This increased demand for bonds (a "bonds-buying spree") causes bond prices to rise. Due to the inverse relationship between bond prices and interest rates, the rise in bond prices leads to a fall in the interest rate back towards 10%.

May/June 2024

26. What happens in the money market if the rate of interest is below the equilibrium rate, for instance, at 8% instead of 10%?
(A) There is an excess demand for money, and people sell bonds.
(B) There is an excess supply of money, and people buy bonds.
(C) The supply of money automatically increases to meet the demand.
(D) There is an excess demand for money, and people buy bonds.

Ans :

(A) There is an excess demand for money, and people sell bonds.
If the interest rate is at 8%, below equilibrium, the opportunity cost of holding money is low, leading to a quantity demanded that exceeds the fixed money supply. To obtain more cash, people will sell their bonds. This widespread selling of bonds causes bond prices to fall, which in turn causes the interest rate to rise back towards equilibrium.

Oct/Nov 2009

27. According to Keynesian analysis, what is the effect of an increase in the quantity of money on the rate of interest, assuming no change in income or expectations?
(A) The rate of interest will increase.
(B) The rate of interest will remain unchanged.
(C) The effect is indeterminate.
(D) The rate of interest will fall.

Ans :

(D) The rate of interest will fall.
Given a downward-sloping liquidity preference curve, an increase in the money supply (a rightward shift of the vertical money supply curve) will create an excess supply of money at the initial interest rate. To restore equilibrium, the interest rate must fall, which increases the quantity of money people are willing to hold until it matches the new, larger money supply.

May/June 2019

28. Consider the following statement: "With initial equilibrium at Or, when the money supply is expanded from ON to ON1, there emerges excess supply of money at the initial 'Or' rate of interest. The people would react to this excess quantity of money supplied by buying bonds. As a result, the bond prices will go up which implies that the rate of interest declines." This process describes the mechanism of:
(A) Contractionary monetary policy.
(B) Expansionary monetary policy.
(C) Expansionary fiscal policy.
(D) An increase in liquidity preference.

Ans :

(B) Expansionary monetary policy.
The described sequence of events—an expansion of the money supply leading to people buying bonds, a rise in bond prices, and a subsequent decline in the interest rate—is the transmission mechanism of an expansionary monetary policy. The central bank increases the money supply to lower interest rates and stimulate economic activity, as depicted in the process.

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(B) They are independent of each other.
(C) The relationship is U-shaped.
(D) They are inversely related.

Ans :

(D) They are inversely related.
According to Keynes, a higher current rate of interest means a lower speculative demand for money because the opportunity cost of holding idle cash is high. Conversely, a lower current rate of interest increases the speculative demand for money as people prefer liquidity, fearing a future rise in rates and a fall in bond prices.

Oct/Nov 2008

21. What does the downward slope of the money demand curve (liquidity preference curve) indicate?
(A) The quantity of money demanded increases as the level of nominal income increases.
(B) The quantity of money demanded decreases as the level of nominal income increases.
(C) The quantity of money demanded increases as the rate of interest falls.
(D) The quantity of money demanded decreases as the rate of interest falls.

Ans :

(C) The quantity of money demanded increases as the rate of interest falls.
The money demand curve is downward-sloping because the demand for money is inversely related to the rate of interest, primarily due to the speculative motive. At higher interest rates, holding money has a high opportunity cost, so people hold less. At lower interest rates, the opportunity cost is low, and people prefer to hold more money.

May/June 2012

22. What happens to the money demand curve if the level of nominal income in the economy increases?
(A) It shifts downward to the left.
(B) It shifts upward to the right.
(C) It becomes steeper.
(D) There is a movement along the curve.

Ans :

(B) It shifts upward to the right.
An increase in nominal income leads to a higher volume of transactions. To facilitate these increased transactions, individuals and businesses need to hold more money at any given interest rate. This increases the transactions and precautionary demand for money, causing the entire money demand curve to shift upward and to the right.

Oct/Nov 2016

23. In the Keynesian framework, what determines the supply of money at any given time?
(A) It is determined by the current level of national income.
(B) It is determined by the prevailing market rate of interest.
(C) It is determined by the aggregate demand for goods and services.
(D) It is exogenously fixed by the monetary authority.

Ans :

(D) It is exogenously fixed by the monetary authority.
In the Liquidity Preference model, the supply of money is treated as exogenous, meaning it is determined outside the model. It is assumed to be fixed at a particular level by the central bank or the monetary authority of the country. On a graph, this is represented as a vertical line at the given quantity of money.

May/June 2017

24. Refer to the following text: "In Fig. 15.2, LP is the demand curve for money at a given level of nominal income. MS is the money supply curve which is a vertical straight line showing that Rs. 200 crores are the money supply fixed by the monetary authority. It will be seen that quantity of money demanded equals the given money supply at 10% rate of interest." Based on this information, what occurs if the rate of interest is 12%?
(A) The supply of money exceeds the demand for money.
(B) There is an excess demand for money.
(C) The money market is in equilibrium.
(D) The monetary authority will increase the money supply.

Ans :

(A) The supply of money exceeds the demand for money.
At an interest rate of 12%, which is above the equilibrium rate of 10%, the quantity of money demanded is lower than the fixed supply of Rs.

NODIA

(D) It causes the LM curve to shift to the right and down.

An increase in the money supply means that at any given level of income, the interest rate must be lower to induce people to hold the larger quantity of money. This means that for every point on the original LM curve, the new equilibrium in the money market will occur at a lower interest rate, shifting the entire curve down and to the right.

May/June 2005

44. If there is an upward shift in the liquidity preference function (people want to hold more money at every income level), what happens to the LM curve?

(A) It shifts to the right and down.
(B) It shifts to the left and up.
(C) It becomes flatter.
(D) It remains in the same position.

Ans :

(B) It shifts to the left and up.

An upward shift in the liquidity preference function means there is a greater demand for money for a given level of income. To maintain equilibrium with a fixed money supply, the interest rate must rise to curtail this increased demand. This results in a higher interest rate for every level of income, shifting the LM curve up and to the left.

Oct/Nov 2024

45. The intersection of the IS and LM curves represents which of the following?

(A) The point of maximum employment.
(B) The equilibrium in the goods market only.
(C) The equilibrium rate of interest and level of income.
(D) The equilibrium in the money market only.

Ans :

(C) The equilibrium rate of interest and level of income.

The point where the IS curve and the LM curve intersect is the unique point of general equilibrium. At this specific combination of interest rate and income, both the goods market (Investment = Savings) and the money market (Money Demand = Money Supply) are simultaneously in equilibrium, providing a determinate solution for the economy.

May/June 2011

46. At the equilibrium point determined by the intersection of the IS and LM curves, which two conditions are met simultaneously?

(A) The goods market is in equilibrium (investment equals savings), and the government's budget is balanced.
(B) The money market is in equilibrium (money demand equals supply), and the external sector is balanced.
(C) Household consumption is at its maximum possible level, and the government budget is balanced.
(D) Investment equals savings, and money demand equals money supply.

Ans :

(D) Investment equals savings, and money demand equals money supply.

The IS-LM model's strength lies in finding a single point (r, Y) that satisfies equilibrium in two major markets at once. The IS curve ensures that Investment = Saving (goods market equilibrium), while the LM curve ensures that the Demand for Money = Supply of Money (money market equilibrium). Their intersection satisfies both.

Oct/Nov 2018

47. The determinate theory of interest based on the Hicks-Hansen synthesis depends on which four factors?

(A) Investment-demand, saving function, liquidity preference, and money supply.
(B) Productivity, thrift, fiscal policy, and monetary policy.
(C) Consumption, government spending, net exports, and inflation.
(D) Money demand, bond prices, income levels, and employment.

Ans :

(A) Investment-demand, saving function, liquidity preference, and money supply.

The IS-LM framework synthesizes various elements to determine interest and income. The IS curve is built from the investment-demand function and the saving function (thrift). The LM curve is built from the liquidity preference function (demand for money) and the quantity of money supply. All four are essential for the determinate equilibrium.

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Oct/Nov 2020

29. What are the two primary factors that determine the position of the money demand (liquidity preference) curve?
(A) Money supply and the rate of inflation.
(B) Government spending and the level of taxation.
(C) The level of nominal income and expectations about future interest rates.
(D) The productivity of capital and the rate of saving.

Ans :

(C) The level of nominal income and expectations about future interest rates.
The money demand curve is drawn for a specific level of nominal income and a given set of expectations about the future. A change in nominal income will shift the curve by altering transaction demand. A change in expectations about future bond prices (and thus interest rates) will shift the curve by altering speculative demand.

May/June 2013

30. What is the effect on the equilibrium rate of interest if there is an upward shift in the money demand curve, while the money supply remains unchanged?
(A) The rate of interest will fall.
(B) The rate of interest will remain constant.
(C) The money supply will automatically adjust.
(D) The rate of interest will rise.

Ans :

(D) The rate of interest will rise.
An upward shift in the money demand curve means that at any given interest rate, people want to hold more money. With a fixed money supply, this creates an excess demand for money at the original equilibrium. To restore balance, the interest rate must rise, which reduces the quantity of money demanded until it equals the fixed supply.

Oct/Nov 2013

31. A change in people's expectations, leading them to anticipate a higher rate of interest in the future, will cause what kind of shift in the current money demand curve?
(A) An upward shift, increasing the interest rate.
(B) A downward shift, decreasing the interest rate.
(C) No shift, but a movement along the curve.
(D) A downward shift, increasing the interest rate.

Ans :

(A) An upward shift, increasing the interest rate.
Expecting a higher interest rate in the future is equivalent to expecting bond prices to fall. To avoid capital losses, people will increase their speculative demand for money now by selling bonds. This increase in the overall demand for money at every interest rate is represented as an upward shift in the liquidity preference curve, leading to a higher equilibrium interest rate.

May/June 2021

32. Who are the economists credited with creating the Hicks-Hansen Synthesis, also known as the IS-LM model?
(A) Marshall and Pigou
(B) Sir John Richard Hicks and Alvin Hansen
(C) Keynes and Fisher
(D) Adam Smith and David Ricardo

Ans :

(B) Sir John Richard Hicks and Alvin Hansen
The IS-LM model is a synthesis that combines key elements of both the Classical and Keynesian theories of interest into a single framework. Renowned economists Sir John Richard Hicks and Alvin Hansen are credited with developing this model, which determines the equilibrium interest rate and national income simultaneously, providing a more determinate theory.

Oct/Nov 2011

33. In the IS-LM model, what does the 'IS' in IS Curve stand for?
(A) Interest-Supply
(B) Investment-Savings
(C) Income-Savings
(D) Inflation-Speculation

Ans :

(B) Investment-Savings
The IS curve represents all combinations of interest rates and income levels at which the goods market is in equilibrium. This equilibrium condition is defined by the equality of Investment (I) and Savings (S). The IS curve is derived from the classical framework concerning investment and saving behavior, showing a negative relationship between interest rate and income.

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(B) It remains constant.
(C) It keeps decreasing.
(D) It increases at a decreasing rate.

Ans :

(C) It keeps decreasing.
The principle of diminishing returns states that as more and more units of a variable factor like capital are invested in a business enterprise while other factors are held constant, the marginal productivity of capital will eventually decline. A producer will therefore stop investing when the marginal productivity of capital equals the rate of interest.

May/June 2023

6. What does the downward slope of the capital demand curve (investment schedule) signify in the Classical model?
(A) As interest rates rise, the supply of capital increases.
(B) As interest rates rise, the demand for capital declines.
(C) As income rises, the demand for capital declines.
(D) As interest rates fall, the demand for capital declines.

Ans :

(B) As interest rates rise, the demand for capital declines.
The capital demand curve slopes downward to the right, indicating an inverse relationship between the rate of interest and the quantity of capital demanded for investment. At higher interest rates, the cost of borrowing is high, making fewer investment projects profitable. Conversely, at lower interest rates, more projects become viable, increasing capital demand.

Oct/Nov 2006

7. In the Classical Theory, what is the primary determinant of the supply of savings?
(A) The level of national income
(B) The marginal productivity of capital
(C) The stock of money in the economy
(D) The rate of interest

Ans :

(D) The rate of interest
Classical economists viewed the rate of interest as a reward for saving, which involves abstinence or deferring current consumption. They argued that the supply of savings is interest elastic, meaning that a higher rate of interest provides a greater incentive for people to save more. Therefore, saving and the rate of interest have a positive relationship.

May/June 2016

8. What is the shape of the capital supply curve or saving schedule in the Classical framework?
(A) It slopes upward to the right.
(B) It slopes downward to the right.
(C) It is a vertical straight line.
(D) It is a horizontal straight line.

Ans :

(A) It slopes upward to the right.
The saving schedule slopes upward to the right, illustrating the positive relationship between the rate of interest and the quantity of savings supplied. The theory posits that as the rate of interest increases, the reward for 'waiting' or 'abstinence' becomes more attractive, inducing individuals to save a larger portion of their income, thus increasing capital supply.

Oct/Nov 2021

9. According to the Classical Theory, how is the equilibrium interest rate determined?
(A) When the demand for money equals the supply of money.
(B) When the marginal efficiency of capital equals zero.
(C) When the demand for savings (investment) equals the supply of savings.
(D) When the level of income is at its maximum potential.

Ans :

(C) When the demand for savings (investment) equals the supply of savings.
In the Classical model, the equilibrium interest rate is established at the point where the investment demand curve intersects the savings supply curve. At this rate, the amount that investors wish to borrow is exactly equal to the amount that savers wish to lend, clearing the market for savings and bringing it into equilibrium.

May/June 2009

10. Which of the following is a major criticism leveled by J.M. Keynes against the Classical Theory of interest?

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When investment demand is insensitive (inelastic) to the rate of interest, a large change in the interest rate is required to bring about the necessary change in investment to match a change in savings. This implies a stronger inverse relationship between income and interest rate changes, resulting in a relatively steep IS curve.

Oct/Nov 2017

39. From which economic theory is the LM curve derived?

(A) The Classical theory of savings and investment.
(B) The Law of Diminishing Returns.
(C) The Quantity Theory of Money.
(D) The Keynesian liquidity preference theory of interest.

Ans :

(D) The Keynesian liquidity preference theory of interest.
The LM curve is derived from Keynes's model of the money market. It represents the combinations of income and interest rates where the demand for money (liquidity preference) is equal to the fixed supply of money. Each point on the LM curve signifies an equilibrium in the money market for a given level of income.

May/June 2008

40. What is the general slope of the LM curve and why?

(A) Upward sloping, because higher income increases money demand, requiring a higher interest rate for equilibrium.
(B) Downward sloping, because higher income reduces the demand for money.
(C) Horizontal, representing a liquidity trap.
(D) Vertical, representing a classical case where money demand is interest-inelastic.

Ans :

(A) Upward sloping, because higher income increases money demand, requiring a higher interest rate for equilibrium.
As income increases, the transactions demand for money rises. With a fixed money supply, this creates an excess demand for money. To restore equilibrium, the interest rate must rise to reduce the speculative demand for money, freeing up cash to be used for transactions. This direct relationship between income and the equilibrium interest rate gives the LM curve its upward slope.

Oct/Nov 2005

41. The slope of the LM curve depends on two factors. One is the responsiveness of money demand to changes in income. What is the second factor?

(A) The responsiveness of investment to changes in the interest rate.
(B) The marginal propensity to save.
(C) The elasticity of money demand (liquidity preference) to changes in the interest rate.
(D) The level of government expenditure.

Ans :

(C) The elasticity of money demand (liquidity preference) to changes in the interest rate.
The slope of the LM curve is determined by two key elasticities. The first is how much money demand increases as income rises. The second is how sensitive money demand is to changes in the interest rate. If money demand is highly elastic to interest rates, the LM curve will be flatter.

May/June 2015

42. If the demand for money is highly responsive (elastic) to changes in the rate of interest, what will be the shape of the LM curve?

(A) It will be relatively flat (less steep).
(B) It will be relatively steep.
(C) It will be a vertical line.
(D) It will be downward sloping.

Ans :

(A) It will be relatively flat (less steep).
High elasticity of money demand with respect to the interest rate means that a small increase in the interest rate causes a large decrease in the speculative demand for money. This frees up a large amount of money to satisfy the increased transactions demand from a rise in income. Therefore, the LM curve will be relatively flat.

Oct/Nov 2012

43. What is the effect of an increase in the money supply on the LM curve?

(A) It causes a movement up along the LM curve.
(B) It causes the LM curve to shift to the left and up.
(C) It has no effect on the position of the LM curve.
(D) It causes the LM curve to shift to the right and down.

Ans :

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May/June 2010

34. What does the 'LM' in LM Curve stand for?
(A) Liquidity-Preference-Money Supply
(B) Liquidity-Money
(C) Liability-Management
(D) Lending-Mechanism

Ans :

(A) Liquidity-Preference-Money Supply
The LM curve represents all combinations of interest rates and income levels where the money market is in equilibrium. This equilibrium occurs when the demand for money (Liquidity Preference, L) equals the supply of money (M). The LM curve is derived from Keynes's Liquidity Preference Theory and shows a positive relationship between interest rate and income.

Oct/Nov 2023

35. How is the IS curve derived?
(A) By plotting the equilibrium points from the money market at different income levels.
(B) By plotting the intersection of money demand and money supply at different interest rates.
(C) By plotting the interest rates that equalize savings and investment at various income levels.
(D) By using Keynes' theory of speculative demand for money.

Ans :

(C) By plotting the interest rates that equalize savings and investment at various income levels.
The IS curve is derived using the classical framework. For each level of income, there is a corresponding savings curve. The intersection of each savings curve with the single investment demand curve determines an equilibrium interest rate. The IS curve is the locus of these (income, interest rate) pairs where the goods market (Savings = Investment) is in equilibrium.

May/June 2007

36. What is the general slope of the IS curve and why?
(A) Upward sloping, because higher income leads to higher interest rates.
(B) Vertical, because investment is completely insensitive to the interest rate.
(C) Horizontal, because savings are completely insensitive to income.
(D) Downward sloping, because as income increases, the interest rate that equalizes savings and investment falls.

Ans :

(D) Downward sloping, because as income increases, the interest rate that equalizes savings and investment falls.
An increase in income shifts the savings curve to the right, meaning more savings are available at any interest rate. To encourage enough investment to absorb these additional savings, the rate of interest must fall. Therefore, there is an inverse relationship between income and the equilibrium interest rate in the goods market, resulting in a downward-sloping IS curve.

Oct/Nov 2022

37. The steepness of the IS curve is dependent on which factor?
(A) The responsiveness of money demand to changes in income.
(B) The size of the money supply fixed by the central bank.
(C) The elasticity or sensitiveness of investment demand to changes in the rate of interest.
(D) The responsiveness of savings to changes in the rate of interest.

Ans :

(C) The elasticity or sensitiveness of investment demand to changes in the rate of interest.
If investment demand is highly elastic (very sensitive) to the interest rate, a small fall in the interest rate will cause a large increase in investment. This means the IS curve will be relatively flat. Conversely, if investment is inelastic (insensitive) to the interest rate, the IS curve will be relatively steep.

May/June 2025

38. An economy is characterized by investment demand that is not very sensitive to changes in the rate of interest. For example, even a large drop in interest rates only leads to a small increase in investment. What would be the shape of this economy's IS curve?
(A) Relatively flat (less steep).
(B) Relatively steep.
(C) Perfectly horizontal.
(D) Upward sloping.

Ans :

(B) Relatively steep.

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May/June 2023

48. What is the effect of an increase in autonomous government spending on the IS-LM model?
(A) It shifts the LM curve to the right.
(B) It shifts the IS curve to the right, increasing both income and the interest rate.
(C) It shifts the LM curve to the left.
(D) It shifts the IS curve to the left, decreasing both income and the interest rate.

Ans :

(B) It shifts the IS curve to the right, increasing both income and the interest rate.
An increase in government spending is a form of expansionary fiscal policy. It increases aggregate demand at any given interest rate, causing the IS curve to shift to the right. The new equilibrium occurs at the intersection with the unchanged LM curve, resulting in a higher level of both national income and the equilibrium interest rate.

Oct/Nov 2006

49. How does a tax cut affect the IS curve and the economy's equilibrium?
(A) It shifts the IS curve to the left, lowering income and interest rates.
(B) It shifts the IS curve to the right, raising income and interest rates.
(C) It shifts the LM curve to the right, lowering interest rates and raising income.
(D) It shifts the LM curve to the left, raising interest rates and lowering income.

Ans :

(B) It shifts the IS curve to the right, raising income and interest rates.
A tax cut increases people's disposable income, which in turn boosts their consumption demand. This increase in aggregate demand at any interest rate causes the IS curve to shift to the right. The economy moves to a new equilibrium with a higher level of income and a higher rate of interest.

May/June 2016

50. A government, concerned about rising inflationary pressures, decides to increase personal tax rates. Within the IS-LM framework, what is the expected outcome of this policy action?
(A) The IS curve shifts left, leading to lower income and a lower interest rate.
(B) The IS curve shifts right, leading to higher income and higher interest rates.
(C) The LM curve shifts right, leading to higher income and lower interest rates.
(D) The LM curve shifts left, leading to lower income and a higher interest rate.

Ans :

(A) The IS curve shifts left, leading to lower income and a lower interest rate.
An increase in personal taxes reduces disposable income, which leads to lower consumption and aggregate demand. This is represented by a leftward shift of the IS curve. The new, lower equilibrium point will be characterized by both a lower level of national income and a lower equilibrium rate of interest, helping to manage inflation.

Oct/Nov 2021

51. What is the effect of an expansionary monetary policy, such as an increase in the money supply, in the IS-LM model?
(A) The IS curve shifts to the right, increasing income and the interest rate.
(B) The IS curve shifts to the left, decreasing income and the interest rate.
(C) The LM curve shifts to the right, decreasing the interest rate and increasing income.
(D) The LM curve shifts to the left, increasing the interest rate and decreasing income.

Ans :

(C) The LM curve shifts to the right, decreasing the interest rate and increasing income.
An increase in the money supply shifts the LM curve to the right (and down). This is because a lower interest rate is now required to maintain money market equilibrium at any given income level. The new overall equilibrium occurs at a lower interest rate and a higher level of national income, stimulating the economy.

May/June 2009

52. During a recession, what type of monetary policy would a Central Bank typically adopt, and what is its intended effect on the LM curve?
(A) Contractionary policy, shifting the LM curve left.
(B) Contractionary policy, shifting the IS curve left.
(C) Expansionary policy, shifting the IS curve right.
(D) Expansionary policy, shifting the LM curve

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a recession, begins. This is characterized by a slowdown in economic activity, declining output, and rising unemployment.

May/June 2005

14. The lowest point of economic activity in a business cycle, before a revival begins, is known as the:
(A) Peak
(B) Depression
(C) Recession
(D) Trough

Ans :

(D) Trough
The trough is the lowest point in a business cycle. It marks the end of the depression and contractionary phase and the beginning of the recovery or expansion phase. At the trough, economic activity, production, and employment have reached their lowest levels in that cycle, and the conditions for a revival start to emerge.

Oct/Nov 2022

15. During the boom phase of a business cycle, what is the state of production capacity?
(A) It is fully utilised.
(B) It is severely underutilized.
(C) It is partially utilized with significant slack.
(D) It is being dismantled due to low demand.

Ans :

(A) It is fully utilised.
The boom phase is characterized by a high level of economic activity where production capacity is fully utilised. Businesses operate at or near their maximum potential to meet the strong and rising demand in the economy. This high utilization leads to increased output, higher profits, and a general sense of prosperity across industries.

May/June 2014

16. What is a typical consequence for fixed-income groups or salaried classes during a boom phase?
(A) Their purchasing power increases significantly due to stable prices.
(B) They find it difficult to cope with the increase in prices.
(C) Their income increases in proportion to the rising cost of living.
(D) They benefit the most from the economic prosperity.

Ans :

(B) They find it difficult to cope with the increase in prices.
During a boom, rising demand and production costs lead to inflation. For the fixed-income group or salaried class, their nominal income does not increase at the same rate as the prices of goods and services. Consequently, their real income and purchasing power decline, making it difficult for them to maintain their standard of living.

Oct/Nov 2007

17. Which of the following is NOT a characteristic of the boom phase?
(A) Demand peaks to levels that exceed sustainable output.
(B) The economy may suffer from the emergence of a buyers' market.
(C) A demand-supply lag becomes apparent.
(D) Inflation begins to rise due to market forces mismatch.

Ans :

(B) The economy may suffer from the emergence of a buyers' market.
The boom phase is characterized by the emergence of a sellers' market, not a buyers' market. This occurs because accelerated demand outstrips the economy's sustainable production levels, creating shortages. In a sellers' market, producers have more power due to high demand, allowing them to increase prices and enjoy higher profit margins.

May/June 2025

18. What event marks the transition from the boom phase to the recession phase?
(A) The economy reaching its peak and demand starting to show a downward tendency.
(B) A sudden, sharp increase in aggregate consumer demand.
(C) A major government intervention program designed to stimulate the economy.
(D) A significant and sustained decrease in the general price level, or deflation.

Ans :

(A) The economy reaching its peak and demand starting to show a downward tendency.
The transition from boom to recession occurs once the economy reaches its peak. At this point, the rapid growth becomes unsustainable. A key trigger is the stagnation or downward tendency in demand, often because high prices have eroded

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a greater reward for saving, thus increasing the supply of savings.

Oct/Nov 2025

57. Identify the correct statement regarding Keynes' Liquidity Preference Theory.
(A) Interest is a reward for the act of saving.
(B) The demand for money is solely for transaction purposes.
(C) The rate of interest is determined by the demand for and supply of money.
(D) The money supply is determined by the rate of interest.

Ans :

(C) The rate of interest is determined by the demand for and supply of money.
The central tenet of Keynes's Liquidity Preference Theory is that the rate of interest is a monetary phenomenon. It is the price that brings the demand for money (liquidity preference) into equilibrium with the exogenously determined supply of money. Interest is considered a reward for parting with liquidity, not for saving.

May/June 2018

58. Match List-I (Motive for Holding Money) with List-II (Description).
List-I
P. Transactions Motive
Q. Precautionary Motive
R. Speculative Motive
List-II
1. Holding cash for unforeseen contingencies.
2. Holding cash to profit from expected changes in bond prices.
3. Holding cash for day-to-day purchases.
Code:
(A) P-3, Q-1, R-2
(B) P-1, Q-2, R-3
(C) P-2, Q-3, R-1
(D) P-3, Q-2, R-1

Ans :

(A) P-3, Q-1, R-2
The transactions motive (P) is the need for cash to conduct current, planned transactions (3). The precautionary motive (Q) is the desire to hold cash as a buffer against unexpected events or emergencies (1). The speculative motive (R) is holding cash to take advantage of future movements in interest rates and bond prices (2).

Oct/Nov 2010

59. Consider the following two statements:
Statement 1: The IS curve represents the equilibrium in the money market.
Statement 2: The LM curve represents the equilibrium in the goods market.
Which of the following is correct?
(A) Both Statement 1 and Statement 2 are correct.
(B) Both Statement 1 and Statement 2 are incorrect.
(C) Only Statement 1 is correct.
(D) Only Statement 2 is correct.

Ans :

(B) Both Statement 1 and Statement 2 are incorrect.
Both statements misrepresent the IS-LM model. The IS curve represents equilibrium in the goods market, where Investment = Savings. The LM curve represents equilibrium in the money market, where the Demand for Money (Liquidity Preference) = Money Supply. Therefore, both statements have incorrectly swapped the roles of the two curves.

May/June 2006

60. Assertion (A): An increase in government expenditure leads to a rise in both income and the interest rate.
Reason (R): An increase in government expenditure shifts the LM curve to the right.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.
The assertion (A) is correct; expansionary fiscal policy like increased government spending raises aggregate demand, leading to higher income and interest rates. However, the reason (R) is false. An increase in government expenditure shifts the IS curve to the right, not the LM curve. The LM curve remains unchanged by this fiscal action.

Oct/Nov 2019

61. A country's central bank decides to conduct a large-scale purchase of government securities from the open market. Simultaneously, the

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right.

Ans :

(D) Expansionary policy, shifting the LM curve right.
To combat a recession, a Central Bank implements an expansionary monetary policy by increasing the money supply. This action causes the LM curve to shift to the right. The result is a lower interest rate, which encourages more investment, and a higher level of aggregate demand and income, helping the economy to recover.

Oct/Nov 2015

53. According to the text, 'To manage inflation, the Central Bank cuts the money supply through open market operations, which involve selling bonds or government securities in the open market, thus reducing liquidity in the banking system.' This action is an example of:
(A) Expansionary fiscal policy.
(B) Expansionary monetary policy.
(C) Contractionary monetary policy.
(D) Contractionary fiscal policy.

Ans :

(C) Contractionary monetary policy.
The described action of selling government securities to reduce the money supply and liquidity is a hallmark of contractionary (or restrictive) monetary policy. The goal of this policy is to increase interest rates, curb investment and consumer demand, and ultimately manage or reduce inflationary pressures in the economy by slowing down aggregate demand.

May/June 2022

54. How does a Central Bank's decision to boost the cash reserve ratio (CRR) of banks serve to combat inflation?
(A) It directly increases the lending capacity of banks, leading to lower interest rates.
(B) It contracts the money supply by forcing banks to hold larger reserves.
(C) It acts as a fiscal tool to reduce government spending, shifting the IS curve left.
(D) It serves to encourage foreign capital inflows, shifting the LM curve to the right.

Ans :

(B) It contracts the money supply by forcing banks to hold larger reserves.
Increasing the CRR is a tool of contractionary monetary policy. It requires commercial banks to keep a larger portion of their deposits as reserves with the Central Bank, reducing the funds available for lending. This shrinks the banks' ability to create credit, leading to a contraction in the overall money supply and helping to control inflation.

NODIA

Oct/Nov 2007

55. What is the consequence of a reduction in the money supply on the IS-LM model?
(A) A rightward shift in the LM curve, resulting in lower interest rates and higher income.
(B) A leftward shift in the IS curve, resulting in lower interest rates and lower income.
(C) A rightward shift in the IS curve, resulting in higher interest rates and higher income.
(D) A leftward shift in the LM curve, resulting in higher interest rates and lower income.

Ans :

(D) A leftward shift in the LM curve, resulting in higher interest rates and lower income.
A reduction in the money supply constitutes a contractionary monetary policy. This causes the LM curve to shift to the left (and up), as a higher interest rate is now needed to equilibrate the smaller money supply with money demand at any given income level. The new equilibrium results in a higher interest rate and a lower level of income.

May/June 2014

56. Which of the following statements is INCORRECT regarding the Classical Theory of Interest?
(A) It assumes that savings are primarily a function of income.
(B) It is also known as the real theory of interest.
(C) It posits that interest is determined by real factors like thrift and productivity.
(D) It states that the interest rate equalizes the demand for and supply of savings.

Ans :

(A) It assumes that savings are primarily a function of income.
The Classical Theory assumes that savings are primarily a function of the rate of interest, not income. It was Keynes who argued that savings are more influenced by the level of income. In the classical view, a higher interest rate provides

goods market equilibrium (I=S), and any point on the LM curve represents money market equilibrium (L=M). Therefore, point E represents a general equilibrium for the entire economy.

May/June 2017

66. Based on the diagrams in 'Effect of Monetary Policy' (Figure on page 173), which panel correctly illustrates a contractionary monetary policy?
(A) Panel D: Monetary contraction
(B) Panel A: Fiscal expansion
(C) Panel B: Fiscal contraction
(D) Panel C: Monetary expansion

Ans :

(A) Panel D: Monetary contraction
Panel D shows the LM curve shifting to the left (from LM1 to LM2). This leftward shift is the graphical representation of a contractionary monetary policy, where the money supply is reduced. The result is a movement from equilibrium E1 to E2, characterized by a higher interest rate (i2) and a lower level of income (Y2).

Oct/Nov 2014

67. Which of the following would cause a movement along the IS curve rather than a shift of the curve?
(A) A change in government spending.
(B) A change in tax rates.
(C) A change in the rate of interest.
(D) A change in autonomous investment.

Ans :

(C) A change in the rate of interest.
The IS curve shows the relationship between the interest rate and the level of income. A change in the interest rate, typically caused by a shift in the LM curve, leads to a movement along the existing IS curve to a new level of income. Changes in fiscal policy variables like government spending or taxes cause the entire IS curve to shift.

May/June 2024

68. Consider the following statements about the LM curve.
1. An increase in money supply shifts the LM curve to the left.
2. The LM curve is upward sloping.
3. The LM curve represents the equality of savings and investment.

Which of the statements is/are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1, 2, and 3
(D) 2 only

Ans :

(D) 2 only
Statement 2 is correct; the LM curve is upward sloping. Statement 1 is incorrect; an increase in money supply shifts the LM curve to the right. Statement 3 is incorrect; the LM curve represents money market equilibrium (L=M), while the IS curve represents the equality of savings and investment. Thus, only the second statement is correct.

Oct/Nov 2009

69. An economy is believed to be in a "liquidity trap," a situation where the demand for money is perfectly elastic at a very low interest rate. What would be the shape of the LM curve in this scenario, and what would be the effect of an expansionary monetary policy?
(A) LM curve is vertical; monetary policy is very effective.
(B) LM curve is upward sloping; monetary policy has a moderate effect.
(C) LM curve is horizontal; monetary policy is ineffective.
(D) LM curve is downward sloping; monetary policy is counter-productive.

Ans :

(C) LM curve is horizontal; monetary policy is ineffective.
In a liquidity trap, people are willing to hold any amount of money at the prevailing low interest rate, making the money demand curve and thus the LM curve horizontal. An expansionary monetary policy (shifting LM right) would simply be absorbed into idle cash balances without lowering the interest rate further, rendering it ineffective at stimulating income.

May/June 2019

70. A contractionary fiscal policy, such as a decrease in government spending, will cause which of the following outcomes in the IS-LM framework?
(A) A rightward shift of the IS curve, raising income and interest rates.
(B) A leftward shift of the IS curve, lowering income and interest rates.
(C) A leftward shift of the LM curve, lowering income but raising interest rates.

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(D) A rightward shift of the LM curve, raising income but lowering interest rates.

Ans :

(B) A leftward shift of the IS curve, lowering income and interest rates.

A decrease in government spending reduces aggregate demand at every interest rate. This is represented by a leftward shift of the IS curve. The new equilibrium, at the intersection with the unchanged LM curve, will be at a lower level of national income and a lower equilibrium rate of interest.

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CHAPTER 16
Business Cycles

Oct/Nov 2011

1. What is the primary focus of the term "business cycle" as described in the context of an economy?
   (A) Fluctuations in a major stock market index over a period of several years.
   (B) Economy-wide fluctuations in production or economic activity over several months or years.
   (C) Seasonal variations in agricultural output and retail sales within a single year.
   (D) Changes in the political leadership and economic policy of a country.

   Ans :

   (B) Economy-wide fluctuations in production or economic activity over several months or years.
   A business cycle, also known as an economic cycle, refers to the broader fluctuations in macroeconomic indicators like production and overall economic activity that occur over a period of several months or years. These cycles represent the upward and downward movement of the gross domestic product (GDP) around its long-term growth trend.

May/June 2023

2. According to the definition provided, business cycles typically involve shifts between which two periods?
   (A) Periods of rapid economic growth (expansion) and periods of relative stagnation or decline (contraction).
   (B) Periods of rapid price increases (high inflation) and periods of sustained price decreases (high deflation).
   (C) Periods where a country's exports exceed its imports (trade surplus) and periods where imports exceed exports (trade deficit).
   (D) Periods where government tax revenue exceeds spending (budget surplus) and periods where spending exceeds revenue (budget deficit).

   Ans :

   (A) Periods of rapid economic growth (expansion) and periods of relative stagnation or decline (contraction).
   Business cycles are characterized by alternating phases of economic activity. These are broadly categorized as periods of expansion or boom, where economic growth is relatively rapid, and periods of contraction or recession, where the economy experiences stagnation or decline. These shifts occur around a long-term growth trend and define the cyclical nature of the economy.

Oct/Nov 2005

3. Which of the following statements best describes the predictability of a business cycle?
   (A) It is a regular and repetitive phenomenon with a fixed duration.
   (B) It follows a precise, clock-like pattern similar to the swing of a pendulum.
   (C) Its timing is random and, to a large degree, unpredictable.
   (D) It can be accurately forecasted years in advance using econometric models.

   Ans :

   (C) Its timing is random and, to a large degree, unpredictable.
   Unlike predictable physical phenomena, a business cycle is not regular or repetitive in its timing or duration. The text explicitly states that its timing is random and largely unpredictable, contrasting it with the regular swing of a pendulum. This inherent uncertainty makes forecasting the exact start or end of a phase a significant challenge for economists.

May/June 2018

4. What is the scope of the impact of business cycles on a nation's economy?
   (A) They only affect large multinational corporations and the financial sector.
   (B) They primarily influence government policy and public sector undertakings.
   (C) They are limited to specific industries like manufacturing and construction.

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government reduces its infrastructure spending. What is the combined effect on the IS-LM model?
(A) IS shifts right, LM shifts left.
(B) Both IS and LM shift right.
(C) IS shifts left, LM shifts right.
(D) Both IS and LM shift left.

Ans :

(C) IS shifts left, LM shifts right.
The central bank's purchase of securities is an expansionary monetary policy, which increases the money supply and shifts the LM curve to the right. The government's reduction in spending is a contractionary fiscal policy, which reduces aggregate demand and shifts the IS curve to the left. The final equilibrium depends on the magnitude of these opposing shifts.

May/June 2020

62. Which of the following combinations of policies would unambiguously lead to an increase in the equilibrium level of income (Y)?
I. An increase in the money supply.
II. A decrease in government spending.
III. A cut in taxes.
(A) I and II only
(B) II and III only
(C) I, II, and III
(D) I and III only

Ans :

(D) I and III only
An increase in the money supply (expansionary monetary policy) shifts the LM curve right, increasing income. A cut in taxes (expansionary fiscal policy) shifts the IS curve right, also increasing income. A decrease in government spending (contractionary fiscal policy) shifts the IS curve left, decreasing income. Therefore, only I and III work together to increase income.

Oct/Nov 2008

63. Identify the incorrect pair.
(A) Keynesian Theory : Interest is a reward for saving.
(B) Classical Theory : Real factors determine interest rate.
(C) IS Curve : Represents goods market equilibrium.
(D) LM Curve : Derived from liquidity preference theory.

Ans :

(A) Keynesian Theory : Interest is a reward for saving.
This pair is incorrect. According to Keynesian theory, interest is a monetary phenomenon and is the reward for parting with liquidity, not for the act of saving. The classical theory, in contrast, viewed interest as the reward for saving or abstinence from consumption. All other pairs correctly represent the concepts from the theories of interest.

May/June 2012

64. In what chronological order did these theories or concepts emerge?
1. IS-LM Synthesis
2. Classical Theory of Interest
3. Keynes' Liquidity Preference Theory
(A) 1, 2, 3
(B) 2, 3, 1
(C) 3, 2, 1
(D) 2, 1, 3

Ans :

(B) 2, 3, 1
The Classical Theory of interest, developed by economists like Marshall and Fisher, came first. It was then challenged by J.M. Keynes with his Liquidity Preference Theory in the 1930s. Subsequently, Hicks and Hansen developed the IS-LM model as a synthesis to reconcile and integrate the key insights of both the classical and Keynesian frameworks.

Oct/Nov 2016

65. Referring to Figure 15.8, "Intersection of the IS and LM Curves," the equilibrium point E, where the interest rate is Or3 and income is OY3, signifies a state where:
(A) The goods market is in equilibrium, but the money market is not.
(B) Both the goods market and the money market are simultaneously in equilibrium.
(C) The money market is in equilibrium, but the goods market is not.
(D) The economy is operating at full employment but with high inflation.

Ans :

(B) Both the goods market and the money market are simultaneously in equilibrium.
The point of intersection E is the only point that lies on both the IS curve and the LM curve. By definition, any point on the IS curve represents

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phase, ensuring the cyclical and recurring nature of economic fluctuations, making the idea of a permanent state incorrect.

Oct/Nov 2014

9. What does the asymmetry of business cycle movements imply?
(A) The upward movement during recovery is more sudden and violent than the downward movement.
(B) The duration of a boom is always equal to the duration of a depression.
(C) The downward movement is more sudden and violent than the upward movement.
(D) All industries are affected in a perfectly uniform manner during a downturn.

Ans :

(C) The downward movement is more sudden and violent than the upward movement.
The up and down movements of a business cycle are described as being not symmetrical. This asymmetry means that the nature of the expansion is different from the contraction. Specifically, the downward movement into recession and depression is typically more sudden and violent, characterized by sharp declines, than the more gradual and sustained upward movement during recovery.

May/June 2019

10. According to the provided text, a business cycle is identified as a sequence of how many distinct phases?
(A) Four phases: Boom, Recession, Depression, and Recovery
(B) Two phases: Boom and Bust
(C) Three phases: Expansion, Peak, and Contraction
(D) Five phases: Growth, Peak, Crisis, Trough, and Revival

Ans :

(A) Four phases: Boom, Recession, Depression, and Recovery
The chapter identifies a clear sequence of four distinct phases that constitute a business cycle. These phases, in their typical order, are boom (or expansion), recession (or contraction), depression (or trough), and recovery (or revival). This four-phase model provides a framework for analyzing the fluctuations in overall economic activity over time.

Oct/Nov 2006

11. In the diagram of a business cycle, what does the vertical axis (Y-axis) represent?
(A) Time
(B) Inflation Rate
(C) Unemployment Rate
(D) Real GDP

Ans :

(D) Real GDP
The provided diagram illustrating the phases of a business cycle uses the vertical or Y-axis to represent Real GDP (Gross Domestic Product). This is a standard convention in economics, as the business cycle is fundamentally about the fluctuations in the total output or production of an economy, for which Real GDP is the primary measure.

May/June 2021

12. What is the highest point of economic activity in a business cycle, as shown in the diagram, called?
(A) Trough
(B) Peak
(C) Boom
(D) Recovery

Ans :

(B) Peak
In the graphical representation of a business cycle, the peak represents the highest point of economic activity before a downturn begins. It marks the end of the boom or expansion phase and the beginning of the recession phase. At the peak, economic indicators like production and employment are at their maximum level for that particular cycle.

Oct/Nov 2010

13. Which phase of the business cycle immediately follows the peak?
(A) Recovery
(B) Depression
(C) Recession
(D) Boom

Ans :

(C) Recession
According to the sequential model of the business cycle, the phase that immediately follows the peak is the recession. The peak is the turning point where the economy's upward momentum ceases and a period of contraction, known as

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(D) They affect not only the economy in general but also each individual business firm.

Ans :

(D) They affect not only the economy in general but also each individual business firm.
The effects of business cycles are pervasive, meaning they are widespread and felt throughout the economy. They influence the overall economic environment, impacting key variables like employment and growth, and also have a direct effect on the operations, profitability, and strategic decisions of every individual business firm, regardless of its size or industry.

Oct/Nov 2016

5. The characteristic that upward and downward movements in a business cycle tend to occur at almost the same time in all industries is known as:
(A) Asymmetry
(B) Pervasive
(C) Synchronic
(D) Recurring

Ans :

(C) Synchronic
A key characteristic of a business cycle is that it is synchronic. This means that the cyclical movements, whether expansionary or contractionary, are not confined to one sector but tend to spread across almost all industries and sectors of the economy at approximately the same time. A wave of prosperity or depression in one industry quickly affects others.

May/June 2007

6. Which statement accurately describes the "wave-like movement" characteristic of a business cycle?
(A) The economy experiences a single, prolonged period of growth followed by a single decline.
(B) The periods of prosperity and depression can be seen alternating within a cycle.
(C) Economic movements are sharp and erratic without any discernible pattern.
(D) The economic waves are symmetrical, with equal duration for upward and downward movements.

Ans :

(B) The periods of prosperity and depression can be seen alternating within a cycle.
The wave-like movement of a business cycle refers to the alternating nature of its phases. Periods of economic prosperity, or expansion, are followed by periods of economic depression, or contraction, which in turn are followed by another period of prosperity. This continuous oscillation of economic activity around the long-term trend creates a pattern that resembles a wave.

Oct/Nov 2025

7. The tendency for the phases of a business cycle, such as boom and depression, to repeat over time is referred to as being:
(A) The upward and downward movements are symmetrical in nature.
(B) A boom period can be an eternal phenomenon.
(C) The cycle represents a synchronic movement across sectors.
(D) Cyclical fluctuations are recurring in nature.

Ans :

(D) Cyclical fluctuations are recurring in nature.
Business cycles are characterized by cyclical fluctuations that are recurring in nature. This means the sequence of phases—boom, recession, depression, and recovery—repeats itself over time. A period of boom is eventually followed by a depression, which in turn lays the groundwork for a subsequent boom, making the cyclical pattern a persistent feature of the economy.

May/June 2012

8. Which of the following is an INCORRECT statement regarding the characteristics of a business cycle?
(A) There can be an indefinite depression or an eternal boom period.
(B) Business cycles are pervasive in their effects.
(C) The upward and downward movements are not symmetrical.
(D) A business cycle shows a wave-like movement.

Ans :

(A) There can be an indefinite depression or an eternal boom period.
A fundamental characteristic of business cycles is that no phase lasts forever. The text explicitly states that there can be no indefinite depression or eternal boom period. Each phase contains the conditions that eventually lead to the next

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purchasing power. This shift in demand signals the end of the expansion and the beginning of a contraction.

Oct/Nov 2019

19. During the initial part of a recession, what is the common behavior of producers who are unaware of the changing trend in demand?
(A) They immediately cut production and lay off workers.
(B) They seek government bailouts to avoid losses.
(C) They continue producing, leading to an excess of supply over demand.
(D) They start exporting their entire inventory to other countries.

Ans :

(C) They continue producing, leading to an excess of supply over demand.
In the early stages of a recession, producers are often not immediately aware of the downward shift in demand. They continue their production schedules based on previous boom-time expectations. This leads to a situation where supply exceeds the now-falling demand, causing an unintended accumulation of unsold stocks and inventory pile-up.

May/June 2009

20. Assertion (A): During a recession, the desire for liquidity increases all around.
Reason (R): Producers are compelled to reduce prices so that they can find money to meet their obligations, and consumers postpone consumption expecting further price declines.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
During a recession, uncertainty and financial distress cause both businesses and individuals to prefer holding cash, increasing the desire for liquidity. Reason (R) correctly explains this by detailing the pressures on producers to generate cash to pay debts and the incentive for consumers to hold onto money, thus validating and explaining assertion (A).

Oct/Nov 2011

21. Which phase of the business cycle is also referred to as the "crisis"?
(A) Boom
(B) Recovery
(C) Recession
(D) Depression

Ans :

(C) Recession
The text explicitly states that the recession phase of the business cycle is also known as the crisis. This term reflects the severe distress experienced by businesses during this period, marked by falling demand, piling stocks, rising unemployment, increasing bankruptcies, and a general sense of economic turmoil. It represents the utmost suffering for a business.

May/June 2010

22. Identify the correct statement regarding the characteristics of a recession.
(A) Inflation rises rapidly due to high demand.
(B) There is a general decline in demand as economic activity slows down.
(C) Employment rises as new industries are established.
(D) Industries increase prices to cover rising costs.

Ans :

(B) There is a general decline in demand as economic activity slows down.
A primary characteristic of a recession is a general decline in aggregate demand, which causes overall economic activity to slow down. This contrasts with a boom, where demand is high. During a recession, falling demand leads to lower production, rising unemployment, and puts downward pressure on inflation, forcing firms to consider price cuts.

Oct/Nov 2024

23. What is the defining characteristic of the depression phase concerning employment and resources?
(A) Full employment of men and materials.
(B) Overemployment where resources are strained.
(C) A balanced equilibrium of labor and capital.

The scenario describes the classic start of a recession. The economy has just passed its peak, demand is falling, but production has not yet adjusted, leading to a pile-up of stocks. The cancellation of investment plans (new equipment orders) is a direct consequence of this supply-demand mismatch, which is a hallmark of the recessionary phase.

Oct/Nov 2017

33. A country is experiencing an unemployment rate of over 20%, widespread business failures, and extremely low consumer confidence. Banks have excess cash but find very few willing borrowers even at very low interest rates. This economic environment is characteristic of which phase?
(A) Peak
(B) Depression
(C) Recession
(D) Recovery

Ans :

(B) Depression
This case illustrates the key features of a depression. The extremely high unemployment, pervasive business failures, and rock-bottom confidence signify that economic activity is at its lowest point (trough). The fact that even very low interest rates cannot spur borrowing indicates a deep-seated pessimism and lack of investment opportunities, which defines the depression phase.

May/June 2008

34. After a prolonged downturn, an economy starts showing signs of life. Unemployed workers are being hired, albeit at low wages. Consumers, who had been saving, are now starting to purchase durable goods. The stock market is showing its first sustained gains in years. This scenario describes the beginning of:
(A) The Recovery phase
(B) A new Boom
(C) A secondary Recession
(D) The Depression phase

Ans :

(A) The Recovery phase
The case describes the "germs of recovery" taking hold. Low wages making hiring attractive, pent-up consumer demand being released, and a revival in financial markets (stock market gains) are all classic indicators that the economy has passed its trough. These are the initial, self-sustaining steps that mark the beginning of the recovery phase.

Oct/Nov 2013

35. A company's board is reviewing the economic forecast. Reports indicate that demand is accelerating rapidly, production is at full capacity, and input costs are rising. The marketing department warns of a "sellers' market" where demand exceeds supply. The board should be preparing for the opportunities and risks associated with which phase?
(A) Depression
(B) Recovery
(C) Boom
(D) Recession

Ans :

(C) Boom
The described conditions—accelerated demand, full capacity utilization, rising costs, and a sellers' market—are all textbook characteristics of the boom phase. The company is operating in a period of rapid economic expansion. The board must manage the high demand and profitability while being aware of the risks of rising inflation and an eventual peak.

May/June 2015

36. An analyst observes that firms across several industries are aggressively cutting prices to liquidate their large, unsold inventories and generate cash to meet debt obligations. At the same time, consumer spending is falling as people expect prices to drop even further. This behavior of firms and consumers is most typical of which phase?
(A) Boom
(B) Recovery
(C) Trough
(D) Recession

Ans :

(D) Recession
This scenario highlights key dynamics of a recession. Firms resort to price cuts to manage piling stocks and meet financial obligations, a sign of distress. Simultaneously, consumers postpone purchases in anticipation of further price declines, exacerbating the fall in demand. This combination of producer and consumer

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May/June 2013

28. During the early recovery phase, what motivates idle workers and consumers to re-engage with the economy?

(A) High wages for workers and rising prices for consumers.
(B) The availability of low-wage work and the presence of the lowest prices for goods.
(C) Government employment guarantees and subsidies.
(D) The promise of future stock market gains.

Ans :

(B) The availability of low-wage work and the presence of the lowest prices for goods.
The recovery begins as idle workers, facing unemployment, become willing to accept work at low wages. Simultaneously, consumers who had postponed purchases in hopes of even lower prices now find the prices at their lowest and begin to spend again. These two factors help to stimulate demand and production from their trough levels.

Oct/Nov 2021

29. What role do banks play in initiating the recovery phase?

(A) They restrict lending to prevent another crisis.
(B) They increase interest rates to attract foreign capital.
(C) They come forward to give loans at easier terms and lower rates.
(D) They focus solely on recovering past-due loans.

Ans :

(C) They come forward to give loans at easier terms and lower rates.
During a depression, banks accumulate large cash reserves due to a lack of borrowing demand. As the first signs of revival appear, these banks are eager to lend their idle funds. They facilitate the recovery by coming forward to offer loans on easier terms and at lower interest rates, encouraging investment and spending.

May/June 2024

30. How does the "wave of recovery" sustain itself once initiated?

(A) It relies entirely on continuous government spending.
(B) It quickly fizzles out due to a lack of consumer confidence.
(C) It is sustained by fixing prices and wages at low levels.
(D) It begins to feed upon itself through a cycle of rising income, demand, and investment.

Ans :

(D) It begins to feed upon itself through a cycle of rising income, demand, and investment.
Once recovery begins, it creates a self-sustaining positive feedback loop. The initial pickup in investment and employment leads to increased incomes. This higher income generates more demand, which in turn leads to a rise in prices, profits, and further investment. This virtuous cycle causes the "wave of recovery" to feed upon itself and gather momentum.

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Oct/Nov 2008

31. Which of the following is NOT a major economic characteristic of the recovery phase?

(A) The unemployment rate begins to rise.
(B) An increase in aggregate demand.
(C) New investments become appealing.
(D) Inflation rises as well, making borrowing cheaper.

Ans :

(A) The unemployment rate begins to rise.
A major characteristic of the recovery phase is a fall in the unemployment rate, not a rise. As production expands to meet increasing aggregate demand and new investments are made, businesses create new employment avenues. This leads to a steady decline in unemployment as the economy moves from the trough towards a new expansion.

May/June 2006

32. An economy has just passed its cyclical peak. Observers note that consumer demand is starting to weaken, but factories are still producing at high levels, causing inventories to swell. Businesses are now cancelling orders for new equipment. Which phase of the business cycle is this economy entering?

(A) Boom
(B) Recession
(C) Depression
(D) Recovery

Ans :

(B) Recession

(B) Because rising prices make it difficult for fixed-income groups to afford goods.
During a boom, inflation accelerates. While some incomes rise, those on fixed incomes (like salaried employees or pensioners) find their purchasing power eroding. As prices continue to increase, these groups are compelled to reduce their consumption. This slowdown or reduction in consumption from a significant part of the population causes overall demand to stagnate, marking the peak.

May/June 2019

50. All of the following are characteristics of a recession EXCEPT:
(A) New investments become appealing.
(B) A general decline in demand.
(C) Inflation remains low or shows signs of falling.
(D) Employment falls and unemployment rises.

Ans :

(A) New investments become appealing.
During a recession, falling demand, piling inventories, and declining profits create a pessimistic business environment. This discourages new investment, and firms often cancel or postpone their investment plans. New investments becoming appealing is a characteristic of the recovery phase, not the recession phase. The other options are all hallmarks of a recession.

Oct/Nov 2006

51. What is the state of investor confidence during the depression phase?
(A) Highly optimistic, as firms expect profits to continue rising indefinitely.
(B) Cautiously optimistic, as firms begin to explore select new investment projects.
(C) So low that even less-confident investors are not ready to take up new investment projects.
(D) Neutral, as firms wait for government action before committing to new investment projects.

Ans :

(C) So low that even less-confident investors are not ready to take up new investment projects.
The depression phase is characterized by overwhelming pessimism that pervades the economy. The lack of demand and profitability makes almost any new venture seem doomed to fail. As a result, investor confidence is at its absolute bottom, and even investors who might normally be willing to take risks are not ready to commit to new projects.

May/June 2021

52. What happens to the prices of shares and securities during a depression?
(A) They reach all-time highs.
(B) They remain stable.
(C) They are delisted from the stock exchange.
(D) They fall down.

Ans :

(D) They fall down.
During a depression, corporate profits collapse, many firms face bankruptcy, and the overall economic outlook is bleak. This widespread pessimism and poor performance are reflected in the stock market, where the prices of shares and other securities fall dramatically. Investors sell off their holdings, anticipating further declines in value and seeking the safety of cash.

Oct/Nov 2010

53. Which of the following correctly identifies a cause-and-effect relationship in the recovery phase?
(A) Increased income leads to a decrease in demand.
(B) Rising unemployment leads to an increase in production.
(C) Increased demand leads to a rise in prices, profits, and further investment.
(D) Rising inflation makes borrowing more expensive for investors.

Ans :

(C) Increased demand leads to a rise in prices, profits, and further investment.
The recovery phase is a virtuous cycle. As initial demand picks up, it leads to a rise in prices and allows firms to become profitable again. These profits, combined with a positive outlook, encourage further investment to expand production. This sequence—rising demand leading to profits and then more investment—is the core engine of the recovery process.

May/June 2005

54. Assertion (A): During the recovery phase, rising inflation can make borrowing cheaper for investors.

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behavior is a defining feature of the recessionary crisis.

Oct/Nov 2012

37. "The upward and downward movements tend to occur at almost the same period in all industries. The wave of prosperity or depression in one industry will soon generate a wave in other industries."
Based on this source, what characteristic of a business cycle is being described?
(A) The recurring nature of cycles
(B) The asymmetrical nature of cycles
(C) The synchronic nature of cycles
(D) The pervasive nature of cycles

Ans :

(C) The synchronic nature of cycles
The excerpt directly describes the synchronic nature of business cycles. It highlights that economic movements are synchronized, happening at roughly the same time across different industries. The ripple effect, where a trend in one industry spreads to others, is the core idea behind the synchronic characteristic, distinguishing it from pervasiveness which refers to the widespread impact.

May/June 2011

38. "The up and down movements are not symmetrical. The downward movement is more sudden and violent than the upward movement."
What does this statement imply about the experience of a recession compared to a recovery?
(A) A recession develops slowly, while a recovery happens very quickly.
(B) The economic shock and decline during a recession are typically sharper and faster than the subsequent growth during recovery.
(C) A recovery and a recession typically last for the same amount of time.
(D) The upward movement and downward movement affect the economy with equal intensity.

Ans :

(B) The economic shock and decline during a recession are typically sharper and faster than the subsequent growth during recovery.
The source states that the downward movement (recession) is "more sudden and violent." This implies that the transition into an economic downturn is often sharp and rapid, causing significant disruption quickly. In contrast, the upward movement (recovery) is implied to be more gradual. Therefore, the economic shock of a recession is typically more intense and faster.

Oct/Nov 2020

39. "During the boom phase, production capacity is fully utilised... The increasing cost tendency of the factors of production leads to a continuous increase in product cost. The fixed income group or the salaried class finds it difficult to cope with this increase in prices."
According to this text, who is negatively impacted by the price increases during a boom?
(A) Entrepreneurs and investors
(B) Owners of factors of production
(C) The government
(D) The fixed income group or salaried class

Ans :

(D) The fixed income group or salaried class
The source explicitly points out the negative consequences of a boom for a specific demographic. While entrepreneurs may benefit from high profits, the rising product costs (inflation) erode the purchasing power of those whose incomes do not rise commensurately, such as the fixed income group and salaried class, making it difficult for them to afford goods.

May/June 2022

40. "Underemployment of both men and materials is a characteristic of this phase. General demand falls faster than production. Producers are compelled to sell their goods at a price which will not even cover the full cost."
Which phase of the business cycle is described in this passage?
(A) Depression
(B) Boom
(C) Recession
(D) Recovery

Ans :

(A) Depression
The combination of "underemployment of both men and materials," demand falling faster than production, and producers being forced to sell below cost are the defining and most severe characteristics of the depression phase. This description points to an economy operating at its lowest ebb, far beyond a mere slowdown or recession, representing the trough of the cycle.

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(D) Underemployment of both men and materials.

Ans :

(D) Underemployment of both men and materials.
The depression phase is distinctly characterized by the underemployment of both men (labor) and materials (capital). This means that there are large numbers of unemployed workers and significant idle production capacity, such as factories and machinery. The economy operates far below its potential output level due to extremely low aggregate demand and widespread pessimism.

May/June 2017

24. How does the relationship between general demand and production evolve during the depression phase?
(A) General demand falls faster than production.
(B) General demand and production fall at the same rate.
(C) General demand remains stable while production falls.
(D) General demand rises while production falls.

Ans :

(A) General demand falls faster than production.
A key feature of the depression phase is that the fall in general demand is more rapid and severe than the reduction in production. This mismatch forces producers to sell their goods at extremely low prices, sometimes below the full cost of production, just to generate some revenue and clear their mounting inventories.

Oct/Nov 2005

25. What happens to the demand for bank credit and interest rates during a depression?
(A) Demand for bank credit is at its highest, and interest rates rise.
(B) Demand for bank credit is stable, but interest rates fluctuate wildly.
(C) Demand for bank credit is at its lowest, which results in idle funds and declining interest rates.
(D) Demand for bank credit is at its lowest, but interest rates are kept high by banks.

Ans :

(C) Demand for bank credit is at its lowest, which results in idle funds and declining interest rates.
In a depression, widespread pessimism and a lack of profitable investment opportunities lead to the demand for bank credit reaching its lowest point. With few businesses willing to borrow and invest, banks are left with large amounts of idle funds. To attract any borrowers, they are forced to lower interest rates significantly.

May/June 2020

26. Which of the following is a primary feature of the depression phase?
(A) An extremely low aggregate demand, causing activity to slow down.
(B) An extremely high aggregate demand in the economy.
(C) Rapidly rising inflation.
(D) The opening of new employment avenues.

Ans :

(A) An extremely low aggregate demand, causing activity to slow down.
The depression phase is defined by an extremely low level of aggregate demand throughout the economy. This collapse in spending is the root cause of the severe slowdown in economic activity, leading to mass unemployment, idle factories, and falling prices. The economy operates at the bottom of the cycle, far from its potential output.

Oct/Nov 2015

27. Why does the depression phase not continue indefinitely?
(A) Because of mandatory government intervention.
(B) Because international aid automatically stimulates the economy.
(C) Because the boom phase is scheduled to begin after a fixed period.
(D) Because depression contains in itself the germs of recovery.

Ans :

(D) Because depression contains in itself the germs of recovery.
The text suggests that a depression is not a permanent state because the conditions within the depression phase itself create the foundation for a recovery. Factors such as very low wages attracting employers, rock-bottom prices encouraging consumers to start buying again, and banks with excess reserves willing to lend at low rates collectively act as “germs of recovery.”

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accompanied by an increase in production.
(C) Extremely low aggregate demand in the economy.
(D) Demand peaks to levels that exceed sustainable output.

Ans :

(C) Extremely low aggregate demand in the economy.
The depression phase is fundamentally defined by a severe lack of spending, which translates to an extremely low aggregate demand. This is the root cause of the phase's other characteristics, such as mass unemployment and idle industrial capacity. The other options describe features of the boom and recovery phases of the cycle.

May/June 2007

46. Match List-I (Phase) with List-II (Characteristic).
List-I
P. Boom
Q. Recession
R. Depression
S. Recovery
List-II
1. Underemployment of men and materials
2. Demand exceeds sustainable output levels
3. "Germs of recovery" begin to sprout
4. Known as the "crisis" phase
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-1, R-4, S-3
(D) P-4, Q-3, R-2, S-1

Ans :

(A) P-2, Q-4, R-1, S-3
The Boom (P) is when demand exceeds output (2). Recession (Q) is known as the crisis phase (4). Depression (R) is marked by underemployment of resources (1). The conditions for Recovery (S) emerge from the depths of the depression, where the "germs of recovery" sprout (3). Therefore, the correct matching is P-2, Q-4, R-1, S-3.

Oct/Nov 2025

47. Consider the following statements about the recession phase:
1. Producers immediately perceive the downward trend in demand.
2. Bankers insist on repayment of loans.
3. Consumers postpone their consumption.
Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(B) 2 and 3 only
During a recession, producers are often not aware of the trend initially (1 is incorrect). As financial distress grows, bankers become risk-averse and insist on repayment (2 is correct). Consumers, expecting prices to fall further, postpone their purchases, worsening the downturn (3 is correct). Thus, only statements 2 and 3 accurately describe this phase.

May/June 2012

48. What is the effect of a boom on investment and employment?
(A) It discourages investment and leads to retrenchment.
(B) It attracts more investment and employees work at higher wage rates.
(C) It has no significant effect on investment or employment.
(D) It leads to investment in safe assets only and freezes hiring.

Ans :

(B) It attracts more investment and employees work at higher wage rates.
The boom phase, characterized by high demand and profitability, creates a very optimistic environment. This attracts more and more investment as entrepreneurs seek to expand production to capture higher profits. To increase output, they purchase new machines and hire more labor, often at higher wage rates to attract workers in a tight labor market.

Oct/Nov 2014

49. Why might demand become stagnant or decrease at the peak of a boom?
(A) Because of a significant increase in the real income of the salaried class.
(B) Because rising prices make it difficult for fixed-income groups to afford goods.
(C) Because of government intervention through the imposition of new consumption taxes.
(D) Because of a widespread feeling of pessimism that suddenly grips consumers.

Ans :

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Oct/Nov 2023

41. "Depression contains in itself the germs of recovery. The idle workers now come forward to work at low wages. As the prices are at their lowest, the consumers... now start consuming. The banks, with accumulated cash reserves, now come forward to give loans at easier terms..."
What is the central idea conveyed by this passage?
(A) Depressions are permanent and require external intervention to end.
(B) Recovery is primarily driven by government stimulus programs.
(C) The extreme conditions of a depression create the necessary elements for a natural economic revival.
(D) Banks are the sole drivers of economic recovery.

Ans :

(C) The extreme conditions of a depression create the necessary elements for a natural economic revival.
The passage argues that the very conditions of a depression—low wages, low prices, and banks with excess liquidity—act as catalysts for recovery. It suggests an endogenous or internal mechanism for revival, where the bottom of the cycle naturally creates incentives for workers, consumers, and banks to act in ways that spur economic activity again.

May/June 2016

42. Arrange the four phases of a business cycle in their correct chronological sequence starting from the bottom of the cycle.
1. Boom
2. Recovery
3. Depression
4. Recession

(A) 3, 2, 1, 4
(B) 4, 3, 2, 1
(C) 3, 4, 1, 2
(D) 2, 1, 4, 3

Ans :

(A) 3, 2, 1, 4
The business cycle's lowest point is the depression (or trough). From there, the economy enters the recovery phase, which builds into a boom (or expansion). The boom culminates in a peak, after which the economy enters a recession, leading back down towards a depression. Thus, the correct sequence starting from the bottom is Depression, Recovery, Boom, Recession.

Oct/Nov 2009

43. Which of the following statements about the business cycle are correct?
1. The timing of a business cycle is random and largely unpredictable.
2. The upward and downward movements are symmetrical.
3. A business cycle is synchronic, affecting all industries at a similar time.

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(C) 1 and 3 only
The text states that the cycle's timing is random and unpredictable (1 is correct) and that it is synchronic (3 is correct). However, it explicitly mentions that the movements are not symmetrical, with the downward movement being more sudden and violent than the upward one (2 is incorrect). Therefore, only statements 1 and 3 are correct.

May/June 2023

44. Identify the INCORRECT pair from the following.
(A) Boom : Sellers' market
(B) Recession : Desire for liquidity increases
(C) Depression : Demand for bank credit is at its lowest
(D) Recovery : Unemployment rate begins to rise

Ans :

(D) Recovery : Unemployment rate begins to rise
During the recovery phase, as production and investment pick up to meet rising demand, new employment avenues are created. This leads to a fall in the unemployment rate, not a rise. The other pairs correctly match the phase with its characteristic: a boom creates a sellers' market, a recession increases the desire for liquidity, and a depression sees credit demand collapse.

Oct/Nov 2018

45. Which of the following is considered a primary feature of the depression phase?
(A) An accelerated and prolonged increase in demand.
(B) An increase in aggregate demand

NODIA

Reason (R): Inflation erodes the real value of money, so the amount that investors have to pay back in the future is worth less in real terms.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is a stated characteristic of recovery. Reason (R) provides the correct economic logic: when investors borrow money, they repay it later. If inflation is rising, the future money they use for repayment has less purchasing power than the money they originally borrowed. This reduction in the real value of debt makes borrowing more attractive and cheaper in real terms.

Oct/Nov 2022

55. From the perspective of a business firm, which phase of the business cycle represents the "utmost suffering"?

(A) The peak of the boom.
(B) The early recovery period.
(C) The mid-expansion period.
(D) The recession phase.

Ans :

(D) The recession phase.
The text explicitly describes the recession phase, also called the crisis, as the "utmost suffering for a business." This is due to the combination of falling demand, accumulating unsold stocks, pressure from bankers, rising unemployment, and increasing business failures. It is the period where the viability of many businesses is most severely tested.

May/June 2018

56. Which statement best distinguishes Depression from Recession?

(A) A recession is a slowdown, while a depression is the phase where economic activity is at its bottom with massive underemployment.
(B) A recession involves falling demand and high inflation, while a depression involves rising demand and deflation.
(C) A recession is characterized by falling stock prices, while a depression is characterized by stable stock prices at a low level.
(D) In a recession, bank credit becomes tighter, while in a depression, banks actively refuse to lend to any businesses.

Ans :

(A) A recession is a slowdown, while a depression is the phase where economic activity is at its bottom with massive underemployment.
While both are downturns, a recession is a period of decline. A depression is the culmination of that decline, where the economy hits the trough. The text distinguishes depression by its extreme characteristics, such as "underemployment of both men and materials" and economic activity being "at its bottom," indicating a more severe state than a recession.

Oct/Nov 2016

57. In the context of the business cycle diagram, the transition from 'Trough' to 'Peak' encompasses which two phases?

(A) Recession and Depression
(B) Boom and Recession
(C) Recovery and Boom
(D) Depression and Recovery

Ans :

(C) Recovery and Boom
The trough is the lowest point of the cycle. The upward movement from the trough is the Recovery phase. This phase gathers momentum and transitions into the Boom (or expansion) phase, which continues until the economy reaches the next Peak. Therefore, the entire upward swing from trough to peak consists of the Recovery and Boom phases.

May/June 2014

58. Consider the following characteristics:

1. Economy heats up and a demand-supply lag becomes apparent.
2. Forced labour cuts or retrenchment to reduce production costs.
3. New investments become appealing.
4. Business failure increases and investment ceases.

Which of these are associated with contractionary phases (Recession/Depression)?

(A) 1 and 3
(B) 2 and 4
(C) 1 and 2
(D) 3 and 4

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Ans :

(B) 2 and 4
Contractionary phases are characterized by negative economic trends. Forced labor cuts (2) and increasing business failures with a halt in investment (4) are hallmarks of recession and depression. An economy heating up (1) is a feature of a boom, and new investments becoming appealing (3) is a feature of a recovery.

Oct/Nov 2007

59. The alternative name for a business cycle mentioned in the text is:
(A) Entrepreneur cycle
(B) Vicious circle
(C) Poverty cycle
(D) Economic cycle

Ans :

(D) Economic cycle
The introduction of the chapter explicitly states, "The term business cycle (or economic cycle) refers to economy-wide fluctuations in production or economic activity..." This indicates that "economic cycle" is used as a direct synonym for "business cycle" to describe the same phenomenon of macroeconomic fluctuations around a long-term trend.

May/June 2025

60. What is the primary reason producers are compelled to reduce prices during a recession?
(A) To stimulate long-term growth.
(B) To find money to meet their obligations.
(C) To comply with government regulations.
(D) To drive competitors out of the market.

Ans :

(B) To find money to meet their obligations.
During a recession, as sales fall and stocks pile up, firms face a liquidity crunch. They have ongoing expenses and debt obligations to meet. To generate the necessary cash flow, they are compelled to reduce prices to sell their accumulated inventory. This is a survival tactic rather than a strategic move to stimulate growth or fight competitors.

Oct/Nov 2019

61. Which of the following is an INCORRECT statement about the depression phase?
(A) The aggregate economic activity is at its bottom.
(B) Inflation is comparatively lower.
(C) Stock markets become alive, hastening a revival.
(D) Production houses resort to forced labour cuts or retrenchment.

Ans :

(C) Stock markets become alive, hastening a revival.
Stock markets becoming alive and hastening a revival is a characteristic of the recovery phase, not the depression phase. During a depression, pessimism is rampant, firms are failing, and profits are non-existent. This leads to a collapse in share and security prices, with stock markets being dormant or in a state of decline.

NODIA

May/June 2009

62. Which of the following is NOT a reason for the start of a recovery?
(A) Idle workers coming forward to work at low wages.
(B) Consumers starting to consume as prices are at their lowest.
(C) Banks coming forward to give loans at easier terms.
(D) Producers continuing to cut production due to pessimism.

Ans :

(D) Producers continuing to cut production due to pessimism.
The start of a recovery is marked by a shift from pessimism to cautious optimism. While pessimism and production cuts define depression, recovery begins when demand starts to pick up (from consumers and investment), encouraging producers to slowly and steadily increase output and employment. Continued production cuts would prolong the depression, not start a recovery.

Oct/Nov 2011

63. Identify the correct statement regarding the business cycle.
(A) A wave of prosperity in one industry will soon generate a wave in other industries.
(B) Business cycles are predictable and occur at regular intervals.
(C) The downward movement in a business cycle is typically slow and gradual.
(D) A period of boom can last eternally if managed properly.

Ans :

(A) A wave of prosperity in one industry will soon generate a wave in other industries.
This statement correctly describes the synchronic nature of a business cycle, where economic trends spread from one industry to others. The other statements are incorrect: cycles are unpredictable, the downward movement is sudden and violent, and no phase, including a boom, is eternal. These are all key characteristics discussed in the text.

May/June 2010

64. A 2-Statement Question:
Statement I: During a recession, the failure of one firm affects other firms with whom it has business connections.
Statement II: During a recovery, the wave of recovery, once initiated, soon begins to feed upon itself.
(A) Statement I is correct and Statement II is incorrect.
(B) Statement I is incorrect and Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Ans :

(C) Both Statement I and Statement II are correct.
Both statements are correct descriptions from the text. Statement I highlights the contagious nature of business failures during a recession, where interconnected firms are pulled down together. Statement II accurately describes the self-sustaining, positive feedback loop of the recovery phase, where initial gains in income and demand spur further economic activity.

Oct/Nov 2024

65. A 3-Statement Question:
Consider the following characteristics of the Boom phase:
1. The emergence of a sellers' market.
2. A declining standard of living for fixed-income groups.
3. A shortage of investible capital and decreased savings.

Which of the above are mentioned as potential problems during a boom?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
The text mentions all three as features or problems of a boom. A sellers' market emerges due to excess demand. A declining standard of living affects those on fixed incomes due to inflation. The text also lists a potential shortage of investible capital and decreased savings as fundamental problems that the economy may suffer from during this phase.

May/June 2017

66. Evaluate the following statements related to the business cycle:
1. A business cycle simply means the whole course of business activity passes through the phases of prosperity and depression.
2. The downward movement is more sudden and violent than the upward movement.
3. The lowest point of economic activity in a cycle is called the Peak.
4. Underemployment of both men and materials is a characteristic of the Recovery phase.

How many of the above statements are correct?
(A) One
(B) Two
(C) Three
(D) Four

Ans :

(B) Two
Statement 1 is correct, providing a simple definition. Statement 2 is correct, describing the asymmetry of cycles. Statement 3 is incorrect; the lowest point is the Trough, not the Peak. Statement 4 is incorrect; underemployment is a characteristic of Depression, not Recovery. Therefore, only two of the four statements are correct.

Oct/Nov 2005

67. The phenomenon where a boom is followed by a depression, which is then followed by another boom, exemplifies which characteristic of a business cycle?
(A) It is synchronic.
(B) It is pervasive.
(C) It is recurring in nature.
(D) It is not symmetrical.

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(A) 1, 2 and 3 only
(B) 1, 3 and 4 only
(C) 2, 3 and 4 only
(D) 1, 2, 3 and 4

Ans :

(D) 1, 2, 3 and 4
The MCLR is a comprehensive benchmark that includes four key components. These are the marginal cost of borrowings and return on net worth (marginal cost of funds), the cost incurred due to nil return on CRR balances (negative carry), the bank's operating costs, and a premium charged for loan commitments with longer tenors (tenor premium).

May/June 2013

22. The transition to an External Benchmark based Lending Rate (EBLR) was advised by an Internal Study Group headed by whom?
(A) Dr. Urjit Patel
(B) Dr. Janak Raj
(C) Dr. Raghuram Rajan
(D) Shri Shaktikanta Das

Ans :

(B) Dr. Janak Raj
The move towards an external benchmark for loan pricing was based on the recommendations of an Internal Study Group (ISG) formed by the RBI. This group, which was tasked with reviewing the MCLR system, was headed by Dr. Janak Raj. The ISG concluded that internal benchmarks like Base Rate and MCLR had failed to deliver effective monetary policy transmission.

Oct/Nov 2014

23. From October 1, 2019, RBI mandated that banks must link all new floating rate personal or retail loans and floating rate loans to MSMEs to an external benchmark. Which of the following is NOT a permissible benchmark mentioned in the text?
(A) The policy repo rate as published by the Reserve Bank of India.
(B) The 3-Month Treasury Bill yield as published by the Financial Benchmarks India Private Ltd (FBIL).
(C) The 6-Month Treasury Bill yield as published by the Financial Benchmarks India Private Ltd (FBIL).
(D) The bank's own internal benchmark, such as the Marginal Cost of Funds based Lending Rate (MCLR).

Ans :

(D) The bank's own internal benchmark, such as the Marginal Cost of Funds based Lending Rate (MCLR).
The shift to EBLR was specifically designed to move away from internal benchmarks. Therefore, the bank's own MCLR is not a permissible external benchmark. The approved options are external, market-determined rates like the RBI's policy repo rate or Treasury Bill yields published by a financial benchmark administrator like FBIL, ensuring greater transparency and faster transmission.

May/June 2022

24. What is the minimum frequency at which the interest rate must be reset for a loan linked to an external benchmark?
(A) At least once in three months
(B) At least once a month
(C) At least once in six months
(D) At least once a year

Ans :

(A) At least once in three months
To ensure that changes in the external benchmark are passed on to borrowers in a timely manner, the RBI has mandated a minimum reset frequency. The reset clause in the loan contract requires that the interest rate under the external benchmark system must be readjusted at least once every three months to reflect the latest value of the benchmark.

NODIA

Oct/Nov 2011

25. What was the primary purpose of introducing the Market Stabilisation Scheme (MSS) in March 2004?
(A) To provide long-term funding for government infrastructure projects through special purpose vehicles.
(B) To act as an emergency short-term lending facility for commercial banks facing unexpected liquidity shocks.
(C) To sterilize surplus liquidity of an enduring nature from large capital inflows.
(D) To finance the government's fiscal deficit by directly purchasing bonds in the primary market.

Ans :

CHAPTER 17

Monetary Policy and Fiscal Policy

Oct/Nov 2010

1. According to the introductory text, which of the following are the three key variables that the Reserve Bank of India controls through its monetary policy?
   (A) Government spending, taxation, and public debt
   (B) The supply of money, availability of money, and the cost of money
   (C) Foreign exchange rates, import tariffs, and export subsidies
   (D) Stock market indices, commodity prices, and real estate values

   Ans :

   (B) The supply of money, availability of money, and the cost of money
   Monetary policy is the primary tool used by the Reserve Bank of India to manage the economy. It specifically focuses on controlling the total supply of money, ensuring its availability for economic activities, and influencing the rate of interest, which is the cost of borrowing money. These levers are used to pursue the broader objectives of economic growth and stability.

May/June 2023

2. Which of the following correctly describes the traditional application of expansionary and contractionary monetary policies?
   (A) Expansionary policy is used to combat unemployment by lowering interest rates, while contractionary policy involves raising interest rates to combat inflation.
   (B) Expansionary policy raises interest rates to combat inflation, while contractionary policy lowers them to fight unemployment.
   (C) Both policies are used simultaneously to lower interest rates, with expansionary policy targeting inflation and contractionary policy targeting unemployment.
   (D) Both policies involve raising interest rates, but expansionary policy is for long-term growth and contractionary policy is for short-term stability.

   Ans :

   (A) Expansionary policy is used to combat unemployment by lowering interest rates, while contractionary policy involves raising interest rates to combat inflation.
   Monetary policies are classified based on their intended effect on the money supply. An expansionary policy aims to increase the total money supply, typically by lowering interest rates to encourage borrowing and spending, thereby combating unemployment during a recession. Conversely, a contractionary policy aims to decrease the money supply by raising interest rates to curb inflation.

Oct/Nov 2005

3. What is the primary focus of Fiscal Policy as defined in the text?
   (A) Controlling the money supply and interest rates to ensure price stability and economic growth.
   (B) Regulating the banking system and financial institutions to maintain systemic stability.
   (C) Managing government spending and tax policies to influence macroeconomic conditions.
   (D) Overseeing international trade and foreign exchange reserves to manage the balance of payments.

   Ans :

   (C) Managing government spending and tax policies to influence macroeconomic conditions.
   Fiscal policy is a tool of the government, distinct from the central bank's monetary policy. It involves the strategic use of government expenditure and taxation to influence key macroeconomic variables. These include aggregate demand, inflation levels, employment rates, and the overall pace of economic activity, with the goal of boosting the economy or ensuring its stability.

May/June 2012

4. Under which section of the RBI Act, 1934, is the Bank Rate defined?

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liquidity specifically to sectors and entities that were experiencing acute liquidity stress, thereby addressing specific economic pressure points.

May/June 2007

30. An analyst observes that banks are parking a large volume of their surplus funds with the RBI, even though the returns are relatively low. The analyst concludes that the RBI might soon increase a particular rate to make this activity more attractive for banks and absorb more liquidity. Which rate is the analyst referring to?
(A) Marginal Standing Facility (MSF) Rate
(B) Repo Rate
(C) Bank Rate
(D) Reverse Repo Rate

Ans :

(D) Reverse Repo Rate
The Reverse Repo Rate is the rate at which commercial banks park their short-term excess liquidity with the RBI. When the banking system has too much money floating around, the RBI can increase the reverse repo rate. This incentivizes banks to lend more money to the RBI, effectively absorbing the excess liquidity from the system and helping to control inflation.

Oct/Nov 2016

31. The Variable Rate Reverse Repo (VRRR) auction is an instrument where the rate is:
(A) Determined through an auction process and is expected to be higher than the fixed reverse repo rate.
(B) Fixed by the RBI and is always lower than the fixed reverse repo rate.
(C) Set by individual banks based on their specific liquidity needs and surplus funds.
(D) Linked directly to the 10-year government bond yield as a market benchmark.

Ans :

(A) Determined through an auction process and is expected to be higher than the fixed reverse repo rate.
The VRRR is a dynamic liquidity absorption tool. Unlike the fixed reverse repo, the rate is not pre-announced. Instead, the RBI determines an amount to be absorbed and banks bid at a variable rate. This rate is market-determined through the auction and is generally expected to be higher than the fixed reverse repo rate, offering a better return for parking excess funds.

NODIA

May/June 2024

32. When the RBI conducts Open Market Operations (OMOs) by selling government bonds in the secondary market, what is the intended effect?
(A) To inject money into the system and lower bond yields.
(B) To suck money out of the system and drive up bond yields.
(C) To have a neutral effect on liquidity but stabilize bond prices.
(D) To directly control the lending rates of commercial banks.

Ans :

(B) To suck money out of the system and drive up bond yields.
When the RBI sells government bonds, commercial banks and other market participants buy them. This transaction transfers money from the banking system to the RBI, thus sucking liquidity out of the system. The increased supply of bonds in the market also puts downward pressure on their prices, which corresponds to an increase or drive-up in bond yields.

Oct/Nov 2006

33. The Liquidity Adjustment Facility (LAF) was introduced in 1998 based on the recommendations of which committee?
(A) N. K. Singh Committee
(B) Narasimham Committee II
(C) Dr. Janak Raj Committee
(D) C. Rangarajan Committee

Ans :

(B) Narasimham Committee II
The introduction of the Liquidity Adjustment Facility (LAF) was a key financial sector reform implemented in 1998. This measure was based on the specific recommendations of the Committee on Banking Sector Reforms, which was chaired by M. Narasimham and is commonly referred to as the Narasimham Committee II. LAF became the primary instrument for managing day-to-day liquidity.

May/June 2015

34. Following the Monetary Policy Committee announcement on April 08, 2022, which instrument replaced the fixed-rate reverse repo as the lower band of the LAF corridor?
(A) Standing Deposit Facility (SDF)
(B) Bank Rate

specifically designed to provide a last-resort, overnight borrowing window for scheduled commercial banks facing acute liquidity stress. It allows them to borrow from the RBI at a penal rate by temporarily dipping into their SLR portfolio, thus acting as a crucial safety valve.

Oct/Nov 2019

9. Which statement correctly identifies a key difference between the Bank Rate and the MSF Rate?

(A) Bank Rate is for overnight lending, whereas MSF Rate is for long-term lending.
(B) Bank Rate loans require pledging of securities, whereas MSF loans can be raised without collateral.
(C) Bank Rate is meant for long-term lending, whereas MSF Rate is for overnight lending.
(D) The objective of the Bank Rate is to fund banks during acute shortages, while MSF manages credit supply.

Ans :

(C) Bank Rate is meant for long-term lending, whereas MSF Rate is for overnight lending.
A fundamental distinction between the two rates lies in their tenor. The Bank Rate is the discount rate at which the RBI provides long-term loans to commercial banks, primarily for managing overall credit supply. In contrast, the MSF rate applies to funds that commercial banks borrow from the RBI on an overnight basis to manage acute, short-term liquidity shortages.

May/June 2014

10. The Indian banking system is described as a "fractional reserve banking system" because banks are required to:

(A) Keep only a fraction of their deposit liabilities as liquid cash with the central bank.
(B) Lend a fraction of their deposits to priority sectors.
(C) Maintain a fraction of their capital as a buffer against losses.
(D) Invest a fraction of their assets in government securities.

Ans :

(A) Keep only a fraction of their deposit liabilities as liquid cash with the central bank.
The term "fractional reserve banking" refers to the practice where banks are mandated to hold only a portion, or fraction, of their total deposit liabilities in the form of liquid reserves. The Cash Reserve Ratio (CRR) is the instrument that enforces this, requiring banks to park a specified percentage of their deposits with the central bank, ensuring deposit safety and liquidity.

Oct/Nov 2012

11. What was the significant outcome of the 2006 amendment to the Reserve Bank of India Act regarding the Cash Reserve Ratio (CRR)?

(A) It fixed the CRR permanently at 4.5% of NDTL for all scheduled commercial banks.
(B) It introduced a mandatory floor of 3% and a ceiling of 20% for the CRR, limiting RBI's discretion.
(C) It mandated that banks would earn interest on their CRR balances, equivalent to the reverse repo rate.
(D) It removed the statutory floor and ceiling for the CRR, giving the RBI full flexibility to set the rate.

Ans :

(D) It removed the statutory floor and ceiling for the CRR, giving the RBI full flexibility to set the rate.
The 2006 amendment to the RBI Act was a major reform that provided the central bank with greater operational flexibility. It removed the previous statutory range for the CRR, which was between 3% and 20% of a bank's Net Demand and Time Liabilities (NDTL). This change empowered the RBI to fix the CRR at any level deemed necessary for monetary management.

May/June 2021

12. How does the RBI use the Cash Reserve Ratio (CRR) as a tool for credit control?

(A) By decreasing the CRR to reduce the money supply and curb inflation, thereby slowing down the economy.
(B) By increasing the CRR to reduce the funds available with banks for lending, thereby controlling money supply and inflation.
(C) By increasing the CRR to increase the funds available for banks to lend, thereby stimulating credit growth and economic expansion.
(D) By linking the CRR directly to the bank's profitability to control its expansion, thereby ensuring a stable return for depositors.

Ans :

NODIA

(A) Section 42
(B) Section 24
(C) Section 17
(D) Section 49

Ans :

(D) Section 49
Section 49 of the Reserve Bank of India Act, 1934, provides the legal basis for the Bank Rate. It mandates the RBI to publicly announce the standard rate at which it is prepared to purchase or rediscount eligible bills of exchange and other commercial papers. This rate serves as a key signaling instrument for the central bank's policy stance.

Oct/Nov 2024

5. The Bank Rate has been aligned with which other policy rate, causing it to change automatically alongside the policy repo rate?
(A) Cash Reserve Ratio (CRR)
(B) Reverse Repo Rate
(C) Marginal Standing Facility (MSF) rate
(D) Standing Deposit Facility (SDF) rate

Ans :

(C) Marginal Standing Facility (MSF) rate
The Bank Rate is now linked to the Marginal Standing Facility (MSF) rate. This alignment means that any change in the MSF rate, which itself moves in tandem with the policy repo rate, results in an automatic adjustment of the Bank Rate. This ensures consistency across the key rates that form the upper bound of the policy corridor.

May/June 2018

6. Which of the following factors have contributed to the limited role of the Bank Rate as a monetary policy instrument in India?
1. The interest rate structure is not automatically linked to the Bank Rate.
2. The bill market is underdeveloped.
3. Commercial banks have access to specific refinance facilities, reducing the need to rediscount securities at the Bank Rate.

(A) Only 1 and 2
(B) Only 2 and 3
(C) Only 1 and 3
(D) All 1, 2, and 3

Ans :

(D) All 1, 2, and 3
The effectiveness of the Bank Rate in India has been constrained by several structural factors. These include the absence of a direct and automatic link between the Bank Rate and other lending rates in the economy, the underdevelopment of the bill market, and the availability of alternative refinance options for commercial banks, which reduces their reliance on this particular instrument.

Oct/Nov 2015

7. What is the Marginal Standing Facility (MSF)?
(A) A facility for banks to deposit excess overnight funds with the RBI without collateral.
(B) A long-term loan facility provided by the RBI for infrastructure projects.
(C) A facility for the central government to borrow directly from the RBI to finance its fiscal deficit.
(D) A facility for scheduled commercial banks to borrow overnight from the RBI by dipping into their SLR portfolio.

Ans :

(D) A facility for scheduled commercial banks to borrow overnight from the RBI by dipping into their SLR portfolio.
The Marginal Standing Facility (MSF) acts as a safety valve for the banking system. It allows scheduled commercial banks to borrow additional funds overnight from the RBI when they face acute liquidity shortages. This borrowing is done at a penal rate and requires banks to dip into their Statutory Liquidity Ratio (SLR) portfolio for collateral, up to a specified limit.

May/June 2006

8. A scheduled commercial bank experiences an unexpected and severe liquidity crunch at the end of the day, and interbank borrowing options are unavailable. The bank needs to secure funds overnight to meet its obligations. Which RBI facility, designed as a "safety valve", can the bank utilize by using its SLR securities as collateral?
(A) Marginal Standing Facility (MSF)
(B) Market Stabilisation Scheme (MSS)
(C) Standing Deposit Facility (SDF)
(D) Open Market Operations (OMO)

Ans :

(A) Marginal Standing Facility (MSF)
In this scenario, the Marginal Standing Facility (MSF) is the appropriate tool. The MSF is

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hand, is primarily to ensure the solvency of the commercial bank and regulate its leverage for credit expansion. Therefore, the statement swapping these primary purposes is incorrect.

Oct/Nov 2017

17. A key feature of the Standing Deposit Facility (SDF) is that it allows the RBI to:
(A) Absorb liquidity by providing government securities as collateral.
(B) Absorb liquidity from commercial banks without giving government securities in return.
(C) Inject liquidity without requiring any collateral from banks.
(D) Lend to banks for long tenors against corporate bonds.

Ans :

(B) Absorb liquidity from commercial banks without giving government securities in return.
The Standing Deposit Facility (SDF) is a powerful tool that strengthens the RBI's liquidity management framework. Its most distinctive feature is that it removes the binding collateral constraint. This allows the RBI to absorb excess liquidity from the banking system on an overnight basis without having to provide government securities in exchange, which was a limitation of earlier tools.

May/June 2025

18. Deposits made by banks under the Standing Deposit Facility (SDF) are considered:
(A) An eligible asset for maintenance of SLR but not for CRR.
(B) Eligible for maintenance of both CRR and SLR.
(C) Not eligible for maintenance of either CRR or SLR.
(D) Eligible for maintenance of CRR but not SLR.

Ans :

(A) An eligible asset for maintenance of SLR but not for CRR.
The treatment of SDF deposits is distinct for the two main reserve ratios. The rules specify that funds placed by banks under the SDF are not considered as balances eligible for meeting the Cash Reserve Ratio (CRR) requirement. However, these deposits are recognized as an eligible liquid asset for the purpose of maintaining the Statutory Liquidity Ratio (SLR).

Oct/Nov 2008

19. The Base Rate system, introduced by the RBI with effect from July 1, 2010, replaced which earlier lending rate system?
(A) Prime Lending Rate (PLR)
(B) Marginal Cost of Funds based Lending Rate (MCLR)
(C) Benchmark Prime Lending Rate (BPLR)
(D) External Benchmark based Lending Rate (EBLR)

Ans :

(C) Benchmark Prime Lending Rate (BPLR)
The Base Rate system was a significant reform in the bank lending rate regime. It was introduced on July 1, 2010, to replace the existing Benchmark Prime Lending Rate (BPLR) system. The move was aimed at improving transparency in how banks priced their loans and ensuring a more effective transmission of monetary policy signals to actual lending rates.

May/June 2011

20. The Marginal Cost of Funds based Lending Rate (MCLR) system was introduced to modify which existing system from April 2016 onwards?
(A) The BPLR system
(B) The EBLR system
(C) The PLR system
(D) The Base Rate system

Ans :

(D) The Base Rate system
The MCLR was the next evolution in bank lending benchmarks after the Base Rate. Introduced in April 2016, it modified the existing Base Rate system by making lending rates more sensitive to changes in the bank's current cost of funds. This was intended to further improve the speed and magnitude of monetary policy transmission compared to the Base Rate regime.

Oct/Nov 2020

21. Which of the following are the components used in the calculation of the Marginal Cost of Funds based Lending Rate (MCLR)?
1. Marginal cost of funds
2. Negative carry on CRR
3. Operating costs
4. Tenor premium

(B) By increasing the CRR to reduce the funds available with banks for lending, thereby controlling money supply and inflation.
The CRR is a direct and powerful tool for credit control. When the RBI perceives that excess money supply is causing inflationary pressures, it can increase the CRR. This action impounds a larger portion of banks' deposits, directly reducing their lending capacity. Consequently, the availability of credit in the economy shrinks, helping to control the money supply and moderate inflation.

Oct/Nov 2007

13. The Statutory Liquidity Ratio (SLR) refers to the amount that banks are required to maintain in the form of:
(A) Cash only, deposited with the RBI.
(B) Loans to priority sectors and micro-enterprises.
(C) Cash, Gold, or unencumbered approved securities.
(D) Foreign currency assets and overseas investments.

Ans :

(C) Cash, Gold, or unencumbered approved securities.
The Statutory Liquidity Ratio (SLR) mandates that banks must maintain a certain percentage of their total demand and time liabilities in the form of liquid assets. Unlike CRR, which is only cash with the RBI, SLR assets can include cash held by the bank itself, gold, and unencumbered approved securities like government bonds, providing a buffer for solvency.

May/June 2009

14. As per the RBI's powers mentioned in the text, the Statutory Liquidity Ratio (SLR) shall not be less than 18% or exceed what percentage of a bank's total demand and time liabilities?
(A) 20%
(B) 25%
(C) 30%
(D) 40%

Ans :

(D) 40%
The Reserve Bank of India has the authority to specify the SLR for all Scheduled Commercial Banks. The legal framework stipulates a maximum limit for this ratio. The RBI can set the SLR at any level, provided it does not exceed 40% of the bank's total demand and time liabilities, giving it significant leeway for liquidity management.

Oct/Nov 2021

15. Which of the following is NOT an objective of maintaining the Statutory Liquidity Ratio (SLR)?
(A) To earn high interest returns for commercial banks on behalf of the RBI.
(B) To control the expansion of bank credit.
(C) To ensure the solvency of commercial banks.
(D) To compel commercial banks to invest in government securities.

Ans :

(A) To earn high interest returns for commercial banks on behalf of the RBI.
The primary objectives of the SLR are regulatory and macroeconomic in nature. It helps the RBI control bank credit expansion, ensures banks have a cushion of liquid assets to maintain solvency, and creates a captive market for government securities. Earning high interest is not a primary objective; in fact, returns on SLR securities can often be moderate.

May/June 2016

16. Which of the following statements incorrectly compares the roles of the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR)?
(A) CRR must be maintained in cash with the RBI, whereas SLR can be maintained by the bank itself in the form of cash, gold, or approved securities.
(B) The primary purpose of SLR is to drain excess liquidity from the economy, while the primary purpose of CRR is to ensure bank solvency.
(C) Banks do not earn any interest on CRR balances, while assets kept for SLR generally earn a return.
(D) Both are reserve requirements calculated as a percentage of a bank's Net Demand and Time Liabilities (NDTL).

Ans :

(B) The primary purpose of SLR is to drain excess liquidity from the economy, while the primary purpose of CRR is to ensure bank solvency.
The primary use of CRR is to drain excess money from the economic system to maintain monetary stability. The use of SLR, on the other

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(C) To sterilize surplus liquidity of an enduring nature from large capital inflows.

The Market Stabilisation Scheme (MSS) was introduced as a specific tool for sterilisation. Its purpose was to absorb the surplus liquidity of an enduring nature that was being created by large-scale capital inflows, such as those from FIIs in 2004. Under MSS, the government issues securities specifically to mop up this excess liquidity, separate from its normal borrowing program.

May/June 2005

26. An increase in the policy Repo Rate by the RBI typically leads to which of the following outcomes?

(A) It makes borrowing from the RBI more expensive for banks.

(B) It makes borrowing from the RBI cheaper for banks.

(C) It encourages banks to lower their lending rates.

(D) It signals an expansionary monetary policy stance.

Ans :

(A) It makes borrowing from the RBI more expensive for banks.

The Repo Rate is the rate at which commercial banks borrow short-term funds from the RBI. Therefore, when the RBI increases the repo rate, the cost of borrowing for banks rises. This increase in cost is then typically passed on to consumers and businesses in the form of higher lending rates, making it a key tool of contractionary monetary policy.

Oct/Nov 2013

27. On May 4, 2022, the RBI set the policy repo rate at 4.4%. On June 8, 2022, it was increased by 50 basis points. Subsequently, on August 5, 2022, it was increased again by another 50 basis points. What was the repo rate immediately after the announcement on June 8, 2022?

(A) 4.4%

(B) 5.4%

(C) 4.0%

(D) 4.9%

Ans :

(D) 4.9%

The initial rate was 4.4%. A 50 basis point increase is equivalent to 0.5%. Therefore, the new rate on June 8, 2022, is calculated as 4.4% + 0.5% = 4.9%.

May/June 2019

28. What key function does the third-party agent, such as the Clearing Corporation of India Limited (CCIL), perform in a Tri-Party Repo (TREPS) transaction?

(A) It acts as the primary borrower in the transaction.

(B) It acts as an intermediary for collateral selection, payment, settlement, and custody.

(C) It guarantees the return on the securities involved.

(D) It sets the interest rate for the repo transaction.

Ans :

(B) It acts as an intermediary for collateral selection, payment, settlement, and custody.

The defining feature of a tri-party repo is the involvement of a third entity that acts as an agent. This intermediary, like CCIL in the TREPS market, facilitates the transaction by managing crucial operational aspects. These include selecting the collateral, handling payment and settlement, and managing the custody of securities, which distinguishes it from a standard bilateral repo.

Oct/Nov 2025

29. The introduction of Long-Term Repo Operations (LTROs) and Targeted Long-Term Repo Operations (TLTROs) by the RBI was primarily aimed at:

(A) To absorb excess liquidity from the banking system via auctions.

(B) To replace the overnight Liquidity Adjustment Facility (LAF) with a long-term alternative.

(C) To facilitate monetary transmission and provide liquidity to specific stressed sectors.

(D) To directly manage the government's borrowing program and yield curve.

Ans :

(C) To facilitate monetary transmission and provide liquidity to specific stressed sectors.

LTROs were introduced to ensure better monetary policy transmission and support credit offtake by providing funds for longer tenors of one and three years. TLTROs were a more unconventional and targeted version of this tool, designed to channel

NODIA

Ans :

(C) It is recurring in nature.
This pattern of repetition, where the sequence of phases repeats itself over time, is the definition of the "recurring in nature" characteristic of business cycles. It highlights that the cyclical pattern is not a one-time event but a persistent feature of economic activity, with one phase leading to the next in a continuous loop.

May/June 2020

68. What is the most likely reason for "optimism developing among entrepreneurs" during the recovery phase?
(A) Government announcing tax cuts.
(B) A fall in the international value of the currency.
(C) The availability of cheap imported raw materials.
(D) An increase in demand leading to a rise in prices and profits.

Ans :

(D) An increase in demand leading to a rise in prices and profits.
Entrepreneurial optimism is driven by the prospect of profitability. During recovery, as demand increases, stocks are sold off, prices begin to rise, and firms start earning profits again. This tangible evidence of improving business conditions and the potential for future earnings is the primary driver that restores optimism among entrepreneurs, encouraging further investment.

Oct/Nov 2015

69. Match the term from the diagram (List-I) with its description (List-II).
List-I
P. Peak
Q. Trough
R. Recession
S. Recovery
List-II
1. The phase of revival from the lowest point
2. The phase of contraction following the highest point
3. The highest point of economic activity in a cycle
4. The lowest point of economic activity in a cycle
(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-3, Q-2, R-4, S-1
(D) P-1, Q-4, R-2, S-3

Ans :

(B) P-3, Q-4, R-2, S-1
The Peak (P) is the highest point of activity (3). The Trough (Q) is the lowest point of activity (4). The Recession (R) is the contractionary phase that follows the peak (2). The Recovery (S) is the revival phase that starts from the trough (1). This matching correctly aligns the graphical terms with their definitions.

May/June 2013

70. Why are production houses forced to resort to retrenchment or forced labor cuts during a depression?
(A) To expand into new markets.
(B) To reduce production costs and remain competitive in the market.
(C) To invest in automation technology.
(D) To comply with new labor laws.

Ans :

(B) To reduce production costs and remain competitive in the market.
During a depression, demand is extremely low, and prices may not even cover costs. To survive, firms must drastically reduce their expenses. Since labor is a major component of production costs, businesses resort to retrenchment (layoffs) or forced labor cuts to lower their cost base, align production with the low demand, and try to remain competitive.

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(C) Variable Rate Reverse Repo (VRRR)
(D) Market Stabilisation Scheme (MSS)

Ans :

(A) Standing Deposit Facility (SDF)
A significant change to the monetary policy operating framework occurred on April 8, 2022. On this date, the RBI operationalized the Standing Deposit Facility (SDF). The SDF rate was established as the new floor of the LAF corridor, effectively replacing the fixed-rate reverse repo rate that had previously served as the lower band for short-term interest rates.

Oct/Nov 2022

35. As per the text, what is the width of the restored policy rate corridor under LAF, and what are its upper and lower bands?
(A) 90 basis points, with MSF as the upper band and SDF as the lower band.
(B) 65 basis points, with Bank Rate as the upper band and Reverse Repo as the lower band.
(C) 50 basis points, with MSF as the upper band and SDF as the lower band.
(D) 25 basis points, with Repo Rate as the upper band and SDF as the lower band.

Ans :

(C) 50 basis points, with MSF as the upper band and SDF as the lower band.
The RBI decided to restore the LAF corridor to its pre-pandemic width of 50 basis points. This corridor is defined by the Marginal Standing Facility (MSF) rate as its ceiling (upper band) and the Standing Deposit Facility (SDF) rate as its floor (lower band). The policy repo rate is positioned at the center of this corridor.

May/June 2017

36. During its response to the 2008 global financial crisis, which of the following was a key difference in the RBI's actions compared to central banks in many advanced economies?
(A) The RBI significantly increased its balance sheet size through liquidity injection.
(B) The RBI diluted collateral standards, accepting mortgage securities and commercial papers.
(C) The counter-parties for liquidity injection were primarily non-bank financial companies.
(D) There was no dilution of collateral standards, which remained largely government securities.

Ans :

(D) There was no dilution of collateral standards, which remained largely government securities.
A notable feature of the RBI's response to the 2008 crisis was its prudent approach to collateral. Unlike many advanced economies where central banks accepted lower-quality assets like mortgage-backed securities, the RBI did not dilute its collateral standards. The collateral accepted for its liquidity operations remained predominantly high-quality government securities, enhancing financial stability.

NODIA

Oct/Nov 2009

37. The Monetary Policy Committee (MPC) is constituted by the Central Government under which section of the Reserve Bank of India Act, 1934?
(A) Section 45ZA
(B) Section 45ZN
(C) Section 45ZB
(D) Section 49

Ans :

(C) Section 45ZB
The legal foundation for the creation and functioning of the Monetary Policy Committee (MPC) is provided by Section 45ZB of the amended RBI Act, 1934. This section empowers the Central Government to constitute the six-member committee, which is tasked with the crucial responsibility of determining the policy interest rate required to achieve the mandated inflation target.

May/June 2020

38. What is the primary objective of monetary policy in India as stated in the text?
(A) To maximize the government's tax revenue.
(B) To maintain price stability while keeping in mind the objective of growth.
(C) To ensure the profitability of all commercial banks.
(D) To strictly control the exchange rate of the Indian Rupee.

Ans :

(B) To maintain price stability while keeping in mind the objective of growth.
The monetary policy framework in India operates under a dual-objective mandate. The primary

and overriding goal is to maintain price stability, which is crucial for a stable macroeconomic environment. However, this objective must be pursued while simultaneously considering the needs of the economy for sustainable growth, making it a delicate balancing act for the RBI.

Oct/Nov 2018

39. What is the consumer price index (CPI) inflation target set by the Government of India for the period April 1, 2021, to March 31, 2026?
(A) 2% with a tolerance band of pm 2%
(B) 6% with a tolerance band of pm 2%
(C) 5% with a tolerance band of pm 1%
(D) 4% with a tolerance band of pm 2%

Ans :

(D) 4% with a tolerance band of pm 2%
The Government of India, in consultation with the RBI, sets the inflation target for a five-year period. For the period from April 1, 2021, to March 31, 2026, the target was retained at 4% CPI inflation. This target operates within a tolerance band, allowing inflation to move between a lower limit of 2% and an upper limit of 6%.

May/June 2010

40. Which of the following statements about the composition and voting of the Monetary Policy Committee (MPC) is correct?
(A) The MPC has six members, and the Governor has a second or casting vote in the event of a tie.
(B) The MPC has five members, and the Governor has the deciding vote in case of a tie.
(C) The quorum for a meeting is three members, and decisions are made by simple majority.
(D) All six members are nominated by the Reserve Bank of India.

Ans :

(A) The MPC has six members, and the Governor has a second or casting vote in the event of a tie.
The MPC is a six-member body, with three members from the RBI and three appointed by the government. The quorum for a meeting is four members. Each member has one vote. In a situation where the votes are tied, the RBI Governor, who is the ex-officio Chairperson, is empowered to use a second or casting vote to break the deadlock.

Oct/Nov 2023

41. Assertion (A): The primary goal of India's monetary policy is to maintain price stability while being mindful of the growth objective.
Reason (R): The amended RBI Act of 1934 provides a statutory basis for a flexible inflation targeting framework.
(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
The assertion correctly states the dual objective of India's monetary policy. The reason provides the legal underpinning for this approach. The 2016 amendment to the RBI Act formalized the flexible inflation targeting framework, which legally mandates the RBI to focus on price stability (the target) while allowing for flexibility to support growth, thus correctly explaining the assertion.

May/June 2008

42. Under what circumstances would the RBI be considered to have failed in achieving its inflation target?
1. The average inflation is more than the upper tolerance level for any three consecutive quarters.
2. The average inflation is less than the lower tolerance level for any three consecutive quarters.
(A) Only 1 is correct.
(B) Only 2 is correct.
(C) Both 1 and 2 are correct.
(D) Neither 1 nor 2 is correct.

Ans :

(C) Both 1 and 2 are correct.
The definition of failure is symmetric around the tolerance band. A failure is triggered if the average inflation rate breaches the band on either side for a sustained period. This occurs if the inflation rate remains above the upper tolerance limit (e.g., 6%) or below the lower tolerance limit (e.g., 2%) for three consecutive quarters.

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Oct/Nov 2010

43. In the event of a failure to meet the inflation target, the RBI is required to submit a report to the Central Government. What must this report contain?

(A) A proposal to reconstitute the MPC and a recommendation for a new inflation target range.

(B) A formal request for specific fiscal measures from the government to complement monetary policy actions.

(C) A detailed analysis of global commodity price shocks and their pass-through to domestic inflation.

(D) An explanation of the failure, the remedial actions planned, and the time frame for correction.

Ans :

(D) An explanation of the failure, the remedial actions planned, and the time frame for correction.

The accountability mechanism under Section 45ZN of the RBI Act is very specific. In case of a failure, the RBI must provide a comprehensive report to the government. This report must clearly explain the reasons for the failure, outline the corrective policy measures it proposes to take, and provide an estimate of the time period required to bring inflation back to target.

May/June 2023

44. During the COVID-19 pandemic, the RBI reduced the Cash Reserve Ratio (CRR) by 100 basis points to 3.0% for one year. What was the primary objective of this measure?

(A) To directly improve the capital adequacy and solvency ratios of scheduled commercial banks.

(B) To inject primary liquidity into the banking system to counter economic disruption.

(C) To create a captive market for new government securities issued to fund the fiscal deficit.

(D) To provide a non-borrowed source of funds to meet the central government's financing needs.

Ans :

(B) To inject primary liquidity into the banking system to counter economic disruption.

The reduction in CRR was a direct liquidity-enhancing measure. By lowering the percentage of deposits that banks needed to park with the RBI, this action immediately released a substantial amount of funds (stated as about ₹1,37,000 crores) back into the banking system. This was done to ensure banks had sufficient liquidity to manage the economic disruption caused by COVID-19.

Oct/Nov 2005

45. To support banks during the high volatility and liquidity stress of the COVID-19 pandemic, what change did the RBI make to the Marginal Standing Facility (MSF) accommodation?

(A) It decreased the borrowing limit from 2% to 1% of the Statutory Liquidity Ratio (SLR).

(B) It suspended the MSF facility temporarily to prevent excessive borrowing by banks.

(C) It increased the borrowing limit from 2% to 3% of the Statutory Liquidity Ratio (SLR).

(D) It made borrowing under MSF interest-free for all scheduled commercial banks.

Ans :

(C) It increased the borrowing limit from 2% to 3% of the Statutory Liquidity Ratio (SLR).

To provide banks with a larger emergency liquidity buffer, the RBI enhanced the MSF facility. It increased the amount that banks could borrow overnight from the existing limit of 2% of their SLR portfolio to 3%. This measure was expected to provide significant additional liquidity support through the LAF window during times of acute stress.

May/June 2012

46. During the COVID-19 crisis, a mutual fund faced intense redemption pressure and struggled to meet its liquidity needs by selling its holdings of corporate bonds and commercial papers. Which specific, time-bound facility of ₹50,000 crores was introduced by the RBI to address this exact problem?

(A) Targeted Long-Term Repo Operations (TLTRO)

(B) On Tap TLTRO

(C) Government Securities Acquisition Programme (G-SAP)

(D) Special Liquidity Facility for Mutual Funds (SLF-MF)

Ans :

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(D) Special Liquidity Facility for Mutual Funds (SLF-MF)

The scenario described points directly to the stress faced by the mutual fund sector. To counter this, the RBI announced the Special Liquidity Facility for Mutual Funds (SLF-MF). This dedicated facility of ₹50,000 crores allowed banks to borrow from the RBI and use these funds exclusively to meet the liquidity requirements of mutual funds through loans or outright purchase of their assets.

Oct/Nov 2024

47. The RBI's implementation of the Government Securities Acquisition Programme (G-SAP) alongside Variable Rate Reverse Repos (VRRR) during the pandemic was construed as 'Operation Twist'. What was the effective outcome of this strategy?

(A) Withdrawing liquidity from the short end and injecting it at the long end to compress 'term-premia'.
(B) Injecting liquidity at both the short and long end of the yield curve.
(C) Withdrawing liquidity from both the short and long end of the yield curve.
(D) Injecting liquidity at the short end and withdrawing it from the long end to steepen the yield curve.

Ans :

(A) Withdrawing liquidity from the short end and injecting it at the long end to compress 'term-premia'.

'Operation Twist' involves simultaneous but opposing actions at different ends of the yield curve. In this context, the RBI used G-SAP to purchase long-term government securities (injecting long-term liquidity) and VRRR to absorb short-term liquidity. This combination effectively flattens the yield curve by lowering long-term rates, which helps promote long-term borrowing and investment.

May/June 2018

48. What was the purpose of the on-tap Term Liquidity Facility of ₹50,000 crores announced by the RBI during the COVID-19 pandemic?

(A) To provide direct liquidity support for the stressed real estate sector.
(B) To boost immediate liquidity for ramping up COVID-related healthcare infrastructure and services.
(C) To support large corporations in refinancing their existing high-cost debt.
(D) To provide direct income support to households through the banking system.

Ans :

(B) To boost immediate liquidity for ramping up COVID-related healthcare infrastructure and services.

This was a highly targeted liquidity facility. The on-tap window was opened specifically to channel credit to a wide range of entities involved in the healthcare ecosystem. This included vaccine manufacturers, hospitals, pathology labs, suppliers of oxygen and ventilators, and logistics firms, with the clear objective of strengthening the country's response to the health emergency.

Oct/Nov 2015

49. As a regulatory and supervisory measure during COVID-19, the RBI permitted lenders to grant a three-month moratorium on term loans outstanding as on which date?

(A) March 31, 2020
(B) March 1, 2020
(C) April 1, 2020
(D) January 1, 2020

Ans :

(B) March 1, 2020

To provide immediate relief to borrowers impacted by the lockdown and economic disruption, the RBI allowed lending institutions to offer a moratorium on loan repayments. This relief measure was applicable to all term loans that were outstanding on the books of the lenders as on March 1, 2020, providing a temporary pause on EMI payments.

May/June 2006

50. What two key regulatory implementations did the RBI decide to defer in view of the stress caused by the COVID-19 pandemic?

(A) Implementation of Net Stable Funding Ratio (NSFR) and the last tranche of Capital Conservation Buffer (CCB)
(B) Implementation of MCLR and Base Rate
(C) Implementation of CRR and SLR hikes
(D) Implementation of EBLR and TREPS

Ans :

NODIA

(A) Implementation of Net Stable Funding Ratio (NSFR) and the last tranche of Capital Conservation Buffer (CCB)

To ease the regulatory burden on banks and conserve capital during the crisis, the RBI deferred the implementation of certain key Basel III norms. Specifically, it postponed the deadline for implementing the Net Stable Funding Ratio (NSFR) guidelines and also extended the timeline for meeting the final tranche of the Capital Conservation Buffer (CCB) by another six months.

Oct/Nov 2019

51. The RBI provided special refinance facilities totaling ₹50,000 crores to which set of All India Financial Institutions (AIFIs) to meet sectoral credit needs during the pandemic?

(A) EXIM Bank, ECGC, and SEBI
(B) IRDAI, PFRDA, and SIDBI
(C) NABARD, SIDBI, and NHB
(D) NABARD, NHB, and EXIM Bank

Ans :

(C) NABARD, SIDBI, and NHB

To ensure credit flow to crucial sectors of the economy like agriculture, MSMEs, and housing, the RBI provided special refinance facilities. This liquidity support was channeled through the apex All India Financial Institutions responsible for these sectors: the National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and National Housing Bank (NHB).

May/June 2014

52. To support the MSME sector during the pandemic, the RBI enhanced the maximum aggregate exposure threshold under Resolution Framework 2.0, allowing a larger set of borrowers to avail of its benefits. What was this threshold increased to?

(A) From ₹10 crores to ₹25 crores
(B) From ₹50 crores to ₹100 crores
(C) From ₹5 crores to ₹15 crores
(D) From ₹25 crores to ₹50 crores

Ans :

(D) From ₹25 crores to ₹50 crores

The Resolution Framework 2.0 was designed to provide relief to stressed borrowers. To expand the coverage of this scheme and benefit a larger number of entities, the RBI increased the maximum aggregate exposure threshold. For MSMEs, non-MSME small businesses, and loans to individuals for business purposes, this limit was enhanced from ₹25 crores to ₹50 crores.

Oct/Nov 2012

53. To mitigate the impact of COVID-19 on households, what change did the RBI make to the permissible Loan to Value (LTV) ratio for loans against gold ornaments and jewellery till March 2021?

(A) It was increased from 75% to 90%.
(B) It was decreased from 90% to 75%.
(C) It was kept unchanged at 75%.
(D) It was increased from 75% to 100%.

Ans :

(A) It was increased from 75% to 90%.

Recognizing that gold is a common form of collateral for households, the RBI provided a temporary relaxation to help them access more credit. The permissible Loan to Value (LTV) ratio for loans against gold was increased from 75% to 90%. This allowed individuals to borrow a higher amount against the same value of gold collateral.

May/June 2021

54. What was the purpose of making the National Automated Clearing House (NACH) available on all days of the week from August 1, 2021?

(A) To facilitate stock market trading on weekends.
(B) To enable timely and transparent transfer of government subsidies during the pandemic.
(C) To allow international fund transfers 24/7.
(D) To reduce the operational costs of commercial banks.

Ans :

(B) To enable timely and transparent transfer of government subsidies during the pandemic.

The decision to make NACH operational on all days, including weekends and holidays, was a significant step towards facilitating Direct Benefit Transfers (DBT). This measure aimed to ensure that government subsidies and other welfare payments could be credited to beneficiaries' accounts in a timely and seamless manner, which was especially critical during the COVID-19 pandemic.

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Oct/Nov 2007

55. J. M. Keynes was the first economist to propose a theory that linked which two elements?
(A) Fiscal policy and economic performance
(B) Monetary policy and stock market performance
(C) Exchange rates and international trade
(D) Population growth and per capita income

Ans :

(A) Fiscal policy and economic performance
John Maynard Keynes is credited with revolutionizing economic thought by establishing a clear theoretical link between the government's fiscal actions and the overall performance of the economy. He argued that government spending and taxation could be actively used to manage aggregate demand and stabilize the economy, a departure from the classical view that markets are self-correcting.

May/June 2009

56. What are the two fundamental instruments of fiscal policy?
(A) Interest rates and reserve ratios
(B) Taxation and government expenditure
(C) Import tariffs and export subsidies
(D) Open market operations and bank rate

Ans :

(B) Taxation and government expenditure
Fiscal policy is executed by the government through two primary levers. The first is taxation, which involves collecting revenue and influencing the disposable income of individuals and firms. The second is government expenditure, which includes purchases of goods and services as well as transfer payments. The manipulation of these two instruments is used to achieve macroeconomic objectives.

Oct/Nov 2021

57. Which of the following is listed as a primary objective of fiscal policy in India?
(A) Promoting private sector investment
(B) Reducing inequality in income and wealth
(C) Maintaining price stability in the economy
(D) Mobilizing resources

Ans :

(C) Maintaining price stability in the economy
The text categorizes the objectives of fiscal policy in India into primary and additional objectives. While promoting private investment, reducing inequality, and mobilizing resources are listed as important additional objectives, the two primary objectives are promoting economic growth and maintaining price stability in the economy, which are considered the core goals of fiscal management.

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May/June 2016

58. How does fiscal policy help in maintaining price stability when there is excess demand?
(A) By employing expansionary fiscal policy through tax cuts to stimulate supply.
(B) By increasing government expenditure to directly boost the production of goods.
(C) By employing contractionary fiscal policy, reducing demand through expenditure cuts or tax hikes.
(D) By granting production subsidies to firms, which would lead to an increase in prices.

Ans :

(C) By employing contractionary fiscal policy, reducing demand through expenditure cuts or tax hikes.
To combat inflation caused by excess demand, the government can use contractionary fiscal policy. This involves measures aimed at reducing aggregate demand in the economy. The government can achieve this by either decreasing its own expenditure or by increasing taxes, which reduces the disposable income of households and firms, thereby curbing their spending and cooling down the economy.

Oct/Nov 2017

59. The Fiscal Responsibility and Budget Management (FRBM) Act was enacted in 2003 with which of the following main objectives?
1. To achieve long-term macro-economic stability.
2. To introduce transparent fiscal management systems.
3. To remove fiscal impediments for budgetary implementation.
4. To increase the fiscal deficit to promote growth.

(A) 1 and 2 only
(B) 1, 2 and 3 only
(C) 2, 3 and 4 only
(D) All 1, 2, 3 and 4

Ans :

(B) 1, 2 and 3 only

The FRBM Act was a landmark legislation aimed at instilling fiscal discipline. Its main objectives were to ensure long-term macroeconomic stability, introduce prudential debt management, bring transparency to the country's fiscal operations, and provide a medium-term framework for the budget. Increasing the fiscal deficit was the problem it sought to address, not an objective.

May/June 2025

60. According to the original FRBM Act and its Rules, what were the targets for the fiscal deficit and revenue deficit?

(A) Eliminate fiscal deficit and reduce revenue deficit to 3% of GDP by March 31, 2008.

(B) Reduce fiscal deficit to 3% of GDP and eliminate revenue deficit by March 31, 2008.

(C) Reduce both fiscal and revenue deficit to 3% of GDP by March 31, 2008.

(D) Eliminate both fiscal and revenue deficit by March 31, 2008.

Ans :

(B) Reduce fiscal deficit to 3% of GDP and eliminate revenue deficit by March 31, 2008.

The FRBM framework laid down clear, time-bound targets for key deficit indicators. The Rules prescribed that the Centre must reduce the fiscal deficit to 3% of GDP. More stringently, it mandated the complete elimination of the revenue deficit, which represents borrowing for consumption expenditure, with the deadline for both targets set as March 31, 2008.

Oct/Nov 2008

61. What is one of the most stringent provisions of the FRBM Act concerning government borrowing?

(A) It prohibits the central government from borrowing directly from the RBI to finance its deficit.

(B) It provides a special window for the Centre to borrow from the RBI during declared national emergencies.

(C) It establishes a strict annual ceiling on the total amount of securities the RBI can purchase from the Centre.

(D) It mandates that a specific percentage of all new government borrowing must be sourced from overseas markets.

Ans :

(A) It prohibits the central government from borrowing directly from the RBI to finance its deficit.

A cornerstone of the FRBM Act was to end the practice of automatic monetization of the deficit. Its most stringent provision banned the central government from borrowing directly from the Reserve Bank of India. This meant the RBI was barred from subscribing to primary issues of government securities, a practice known as deficit financing, which directly creates new money.

May/June 2011

62. The Finance Act 2012 amended the FRBM Act, introducing which new document to be laid before Parliament and which new deficit concept?

(A) The Economic Survey and Gross Primary Deficit.

(B) The Annual Financial Statement and Net Fiscal Deficit.

(C) The Medium Term Expenditure Framework (MTEF) and Effective Revenue Deficit (ERD).

(D) The Fiscal Policy Strategy Statement and Monetized Deficit.

Ans :

(C) The Medium Term Expenditure Framework (MTEF) and Effective Revenue Deficit (ERD).

Following the recommendations of the 13th Finance Commission, the FRBM Act was amended in 2012. This amendment introduced the requirement for the government to present a Medium Term Expenditure Framework (MTEF) statement. It also established a new fiscal concept, the Effective Revenue Deficit (ERD), which adjusted the revenue deficit by excluding grants for capital asset creation.

Oct/Nov 2020

63. What happened to the revenue deficit and effective revenue deficit as fiscal targets in the new FRBM structure introduced in the 2018-2019 budget?

(A) Both were retained as primary fiscal targets.

(B) The revenue deficit target was retained, but the ERD was discontinued.

(C) Both the revenue deficit and the effective revenue deficit were discontinued as targeted fiscal indicators.

(D) The ERD target was retained, but the revenue deficit was discontinued.

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Ans :

(C) Both the revenue deficit and the effective revenue deficit were discontinued as targeted fiscal indicators.
The 2018-2019 budget marked a significant shift in the FRBM framework's focus. The new structure moved away from certain traditional deficit targets. Both the revenue deficit, which had been a key target since the original Act, and the more recent concept of the effective revenue deficit were discontinued as formal, targeted fiscal indicators for the government.

May/June 2013

64. The N.K. Singh Committee on FRBM recommended using which indicator as the primary target for fiscal policy?
(A) Revenue Deficit
(B) Fiscal Deficit
(C) Debt-to-GDP ratio
(D) Effective Revenue Deficit

Ans :

(C) Debt-to-GDP ratio
The N.K. Singh Committee proposed a fundamental shift in the anchor of India's fiscal policy. It recommended that the debt-to-GDP ratio should be used as the primary target. The committee suggested that the fiscal and revenue deficits should be seen as operational targets that would be progressively reduced each year to achieve the main goal of a sustainable debt-to-GDP level.

Oct/Nov 2014

65. What was the targeted debt-to-GDP ratio recommended by the N.K. Singh Committee to be achieved by 2023?
(A) 80%, with 50% for the Centre and 30% for the States.
(B) 60%, with 40% for the Centre and 20% for the States.
(C) 50%, with 30% for the Centre and 20% for the States.
(D) 70%, with 40% for the Centre and 30% for the States.

Ans :

(B) 60%, with 40% for the Centre and 20% for the States.
The committee recommended a clear and quantifiable long-term anchor for fiscal policy. It proposed a target for the combined government debt-to-GDP ratio of 60% to be achieved by the year 2023. This overall target was further broken down into a 40% limit for the central government and a 20% limit for all state governments combined.

May/June 2022

66. The N.K. Singh Committee recommended the creation of which autonomous body to improve fiscal management?
(A) A Monetary Policy Committee
(B) A National Statistical Office
(C) An autonomous Fiscal Council
(D) A Debt Management Office

Ans :

(C) An autonomous Fiscal Council
A key institutional reform suggested by the N.K. Singh Committee was the establishment of an independent Fiscal Council. This autonomous body would be tasked with several crucial functions, including preparing multi-year fiscal forecasts, advising the government on its fiscal strategy and potential deviations from targets, and improving the quality of fiscal data, thereby enhancing transparency and accountability.

Oct/Nov 2011

67. According to the N.K. Singh Committee recommendations, the government may be allowed to deviate from specified fiscal targets under certain circumstances. Which of the following is NOT listed as one of those circumstances?
(A) Considerations of national security, such as a declared war or act of aggression.
(B) A sharp decline in real output growth of at least 3 percentage points below the four-quarter average.
(C) Major structural reforms in the economy that have significant, unforeseen fiscal implications.
(D) A discretionary need to finance new populist schemes or subsidies before a general election.

Ans :

(D) A discretionary need to finance new populist schemes or subsidies before a general election.
The committee defined specific, exceptional grounds for invoking the escape clause. These include national security threats, calamities,

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significant structural reforms, and a sharp, specified decline in economic growth. The need to finance populist schemes is not a valid ground for deviation, as the clause is intended for unforeseen and significant shocks, not for discretionary spending increases.

May/June 2005

68. What is the maximum permissible deviation from the fiscal deficit target in a year, as per the N.K. Singh Committee's recommendations for invoking the escape clause?
(A) 0.25% of GDP
(B) 0.5% of GDP
(C) 1.0% of GDP
(D) 1.5% of GDP

Ans :

(B) 0.5% of GDP
While the committee provided for flexibility through an escape clause, it also recommended a strict limit on the extent of any deviation. The recommendation specifies that if the government invokes the escape clause due to exceptional circumstances, the resulting deviation from the fiscal deficit target cannot be more than 0.5% of GDP in any given year, ensuring the breach is contained.

Oct/Nov 2013

69. Match the monetary policy instrument (List-I) with its primary function (List-II).

	List I		List II
P.	CRR	1.	A facility for overnight borrowing by dipping into SLR portfolio
Q.	MSF	2.	A tool to absorb liquidity without providing collateral
R.	SDF	3.	A percentage of NDTL kept as cash with the RBI, earning no interest
S.	SLR	4.	A percentage of NDTL maintained by the bank itself in liquid assets

(A) P-3, Q-1, R-2, S-4
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-4, R-2, S-1
(D) P-1, Q-3, R-4, S-2

Ans :

(A) P-3, Q-1, R-2, S-4
CRR (P) is the cash reserve kept with RBI without interest (3). MSF (Q) is the penal rate overnight borrowing facility using SLR securities (1). SDF (R) is the tool for absorbing liquidity from banks without the RBI providing collateral (2). SLR (S) is the portfolio of liquid assets maintained by the bank itself (4).

May/June 2019

70. The Government of India, facing unanticipated fiscal implications due to structural reforms and a slowdown in the economy because of the COVID-19 pandemic, decided to increase its fiscal deficit target for RE 2019-20 and BE 2020-21 from 3.3% to 3.8%. Which provision of the FRBM Act did the government utilize to make this deviation?
(A) The provision for eliminating revenue deficit.
(B) The provision prohibiting borrowing from the RBI.
(C) The escape clause under Section 4(2) and 4(3).
(D) The provision for setting up a Fiscal Council.

Ans :

(C) The escape clause under Section 4(2) and 4(3).
The scenario describes a deviation from the fiscal deficit target due to exceptional circumstances (structural reforms, pandemic). The government invoked the 'escape clause' provided in the FRBM Act. Section 4(2) allows for a trigger mechanism for deviation, and the government took a deviation of 0.5%, which is consistent with the limit mentioned in Section 4(3) of the Act.

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CHAPTER 18

System of National Accounts and GDP Concepts

Oct/Nov 2014

1. What is the primary purpose of the System of National Accounts (SNA)?

(A) To regulate the functioning of national and international stock exchanges.

(B) To create a coherent and integrated set of macroeconomic accounts for economic analysis and policymaking.

(C) To provide a framework for corporate accounting and auditing standards.

(D) To establish guidelines for the preparation of a country's annual budget.

Ans :

(B) To create a coherent and integrated set of macroeconomic accounts for economic analysis and policymaking.

The System of National Accounts (SNA) is a comprehensive, consistent, and integrated collection of macroeconomic accounts, balance sheets, and tables. It is based on internationally agreed concepts, definitions, and accounting principles, providing a framework for collecting and presenting economic data suitable for research, decision-making, and policymaking, ensuring global uniformity and comparability.

May/June 2021

2. Under whose auspices was the 2008 System of National Accounts (SNA) framework prepared?

(A) The Inter-Secretariat Working Group on National Accounts, including bodies like the IMF, OECD, and UN.

(B) The World Trade Organization (WTO) and Bank for International Settlements (BIS), focusing on global trade rules and financial stability protocols.

(C) A consortium of Central Statistical Organisations from the G20 nations, aiming to harmonize key economic data exclusively for member countries.

(D) The Ministry of Finance and the Reserve Bank of India, as part of a national-level initiative to reform domestic economic reporting standards.

Ans :

(A) The Inter-Secretariat Working Group on National Accounts, including bodies like the IMF, OECD, and UN.

The 2008 SNA was prepared under the auspices of the Inter-Secretariat Working Group on National Accounts. This group comprises the European Communities (EUROSTAT), International Monetary Fund (IMF), Organization for Economic Cooperation and Development (OECD), the United Nations, and the World Bank, ensuring a globally accepted standard for national accounts compilation.

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Oct/Nov 2007

3. In accordance with the SNA 2008 framework, India revised its GDP series base year to which of the following?

(A) From 2001-02 to 2010-11

(B) From 1999-2000 to 2009-10

(C) From 2004-05 to 2011-12

(D) From 2005-06 to 2015-16

Ans :

(C) From 2004-05 to 2011-12

To accurately reflect structural changes in the economy, India amended its GDP Series Base Year from 2004-05 to 2011-12. This revision was issued on January 30, 2015, and involved adapting sources and techniques in line with the recommendations of the System of National Accounts (SNA) 2008, ensuring indicators remain relevant.

May/June 2012

4. Which of the following is NOT one of the three major components that influenced the revision exercise based on the 2008 SNA framework in India?

(A) Revision of the base year to a more recent year.
(B) Complete review of the existing database and methodology.
(C) Implementation of international guidelines on national accounts compilation.
(D) Introduction of a new currency series to manage inflation.

Ans :

(D) Introduction of a new currency series to manage inflation.
The revision exercise for the national accounts was influenced by three major components: updating the base year for better analysis of structural changes, reviewing the database and estimation methodology, and implementing the international guidelines from SNA 2008. The introduction of a new currency series is a monetary policy action and not part of this statistical revision.

Oct/Nov 2023

5. Following the revision of the National Accounts based on SNA 2008, how is the headline growth rate in India measured?
(A) GDP at factor cost and constant prices.
(B) GVA at basic prices.
(C) GDP at constant market prices.
(D) GNP at factor cost and current prices.

Ans :

(C) GDP at constant market prices.
A major change incorporated in the revision of SNA 2008 was that the headline growth rate would henceforth be measured by GDP at constant market prices. This is referred to simply as 'GDP' and aligns with international practice. Previously, growth was assessed in terms of GDP growth rate at factor cost and constant prices.

May/June 2005

6. After the SNA 2008 revision, estimates of Gross Value Added (GVA) for each sector are provided at which price?
(A) Factor cost
(B) Basic prices
(C) Market prices
(D) Producer prices

Ans :

(B) Basic prices
As part of the major changes introduced with the SNA 2008 revision, the estimates of Gross Value Added (GVA) for each sector are now provided at basic prices. This marked a shift from the previous practice where GVA was assessed at factor cost, thereby providing a more refined measure of production value before product taxes.

Oct/Nov 2016

7. The use of which database significantly improved the coverage of the corporate sector in the revised National Accounts series?
(A) The SEBI database on publicly listed companies, providing detailed financial statements.
(B) The RBI's periodic survey on industrial outlook, capturing business sentiment and forecasts.
(C) The NSSO's comprehensive survey on unorganised manufacturing, detailing its contribution.
(D) The Ministry of Corporate Affairs' MCA21 e-governance database, containing annual company accounts.

Ans :

(D) The Ministry of Corporate Affairs' MCA21 e-governance database, containing annual company accounts.
The revision provided a comprehensive coverage of the corporate sector by including annual accounts submitted to the Ministry of Corporate Affairs (MCA) through its MCA21 e-governance project. This database helped in accounting for both manufacturing and non-manufacturing activities of these enterprises, thus improving the accuracy of the national income estimates for the corporate sector.

May/June 2019

8. The National Statistical Commission's (NSC) proposal, which influenced the base year change, recommended changing the base year of all economic indicators at what frequency?
(A) Every five years
(B) Every three years
(C) Every seven years
(D) Every ten years

Ans :

(A) Every five years
The change of the base year from 2004-05 to 2011-12 was done in compliance with the National

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their contributions to domestic production. It adjusts GDP to a nationality basis.

Oct/Nov 2012

27. Which of the following is a recognized limitation of using GDP as a sole measure of a country's well-being?

(A) It accurately reflects the distribution of income among the population.
(B) It overestimates the value of environmental resources.
(C) It does not account for non-market activities like household work.
(D) It fails to capture how income is distributed, potentially hiding significant inequality.

Ans :

(D) It fails to capture how income is distributed, potentially hiding significant inequality.
GDP is an 'aggregate' measure and does not provide information on how national income is distributed among the population. A country can have a high GDP but also a highly skewed income distribution, where wealth is concentrated in a small segment. This inequality can lead to social tensions and does not necessarily reflect overall welfare.

May/June 2009

28. Why might Gross National Product (GNP) be a more accurate measure than GDP for an export-oriented economy with significant overseas investments?

(A) Because GNP simplifies measurement by focusing only on production that occurs domestically.
(B) Because GNP is more comprehensive by factoring in external sector earnings, like profits from overseas assets.
(C) Because GNP is consistently a larger numerical value than GDP, indicating greater economic strength.
(D) Because GNP provides a more stable measure by excluding the volatile impact of domestic inflation.

Ans :

(B) Because GNP is more comprehensive by factoring in external sector earnings, like profits from overseas assets.
For an economy with substantial foreign earnings (e.g., from exports or overseas investments), GDP alone does not reflect the total income of the country's residents. GNP is more accurate in this context because it includes Net Factor Income from Abroad, thereby capturing the income that nationals earn from their activities in the external sector.

Oct/Nov 2019

29. The concept of 'green' GDP has been developed to address which specific limitation of traditional GDP?

(A) Its inherent failure to account for the distribution of income and wealth among the population.
(B) Its historical inability to accurately measure the growing output of the modern service sector.
(C) Its lack of consideration for environmental degradation and the depletion of natural resources.
(D) Its systematic exclusion of the economic activity occurring within the informal or unorganised economy.

Ans :

(C) Its lack of consideration for environmental degradation and the depletion of natural resources.
Traditional GDP may show high growth, but this can come at the cost of significant environmental damage. The concept of 'green' GDP attempts to address this by adjusting the standard GDP figure to account for the depletion of natural resources and the costs of pollution and other environmental degradation associated with economic production.

May/June 2016

30. Based on the table of Economic Performance Indicators, what does the ratio of 'Saving/GDP' interpret?

(A) Domestic funding of investment.
(B) Labour cost.
(C) Income shares of capital in GDP.
(D) Saving rate of the nation.

Ans :

(D) Saving rate of the nation.
According to the provided table of economic performance indicators, the ratio of 'Saving/GDP' is used to interpret the saving rate of the nation. This metric shows what proportion of a country's total income (GDP) is being saved rather than consumed, which is a crucial indicator of the

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Ans :

(C) It includes investments in financial products like stocks and bonds.

Gross Investment (I) refers to business investment in capital goods, such as new machinery, equipment, software, and structures like factories and houses. However, it does not include investments in financial products like stocks and bonds, as these are considered savings and represent a transfer of ownership of existing assets, not the creation of new capital goods.

May/June 2024

14. In the income approach to calculating GDP, what does 'Compensation of Employees' represent?

(A) Only the salaries of corporate executives.
(B) Corporate profits and proprietor's incomes.
(C) Rents and interest earned on capital.
(D) Wages, salaries, and other employee supplements.

Ans :

(D) Wages, salaries, and other employee supplements.

Within the income approach for GDP computation, 'Compensation of Employees' is a major component that represents the total remuneration paid to employees. This includes not just base wages and salaries but also other supplements like employer contributions to social security and pension funds, making it a comprehensive measure of labor income in the economy.

Oct/Nov 2018

15. How is GDP at factor cost derived from GDP at market prices?

(A) $GDP_{fc} = GDP_{mp} - \text{Indirect Taxes} + \text{Subsidies}$
(B) $GDP_{fc} = GDP_{mp} + \text{Indirect Taxes} - \text{Subsidies}$
(C) $GDP_{fc} = GDP_{mp} + \text{Indirect Taxes} + \text{Subsidies}$
(D) $GDP_{fc} = GDP_{mp} - \text{Indirect Taxes} - \text{Subsidies}$

Ans :

(A) $GDP_{fc} = GDP_{mp} - \text{Indirect Taxes} + \text{Subsidies}$

GDP at market prices includes the impact of indirect taxes (which increase the price) and subsidies (which decrease it). To arrive at GDP at factor cost, which reflects the income earned by factors of production, one must subtract the net effect of these. Therefore, indirect taxes are subtracted and subsidies are added back.

May/June 2010

16. Which method of GDP calculation in India involves aggregating the value added in each sector of the economy?

(A) Income Approach
(B) Product/Value Added Approach
(C) Expenditure Approach
(D) Disposition Approach

Ans :

(B) Product/Value Added Approach

In India, GDP has traditionally been calculated using the product-wise or value-added method. This approach involves calculating how much has been produced (i.e., the value added) in each economic sector, such as agriculture, manufacturing, and services, and then aggregating these values to arrive at the total GDP figure for the country.

Oct/Nov 2022

17. What is the key difference between Real GDP and Nominal GDP?

(A) Real GDP is measured using current year prices for output, while Nominal GDP uses prices from a designated base year.
(B) Real GDP accounts for inflation by using constant base-year prices, while Nominal GDP is calculated using current market prices.
(C) Real GDP includes only the value of manufactured goods, while Nominal GDP incorporates the value of both goods and services.
(D) Real GDP is always calculated via the income method, while Nominal GDP is exclusively calculated using the expenditure method.

Ans :

(B) Real GDP accounts for inflation by using constant base-year prices, while Nominal GDP is calculated using current market prices.

Real GDP, or GDP at constant prices, measures the value of output using prices from a specific base year, thereby removing the influence of price changes and reflecting real growth in production. In contrast, Nominal GDP, or GDP at current prices, values output at the prices prevailing in the year of production, reflecting both quantity and price changes.

NODIA

Statistical Commission's (NSC) proposal. The NSC recommended that the base year for all economic indicators should be changed every five years to ensure that the data remains relevant and captures the structural shifts occurring within the economy.

Oct/Nov 2011

9. Why was the year 2009-10, which had a quinquennial EUS, not chosen as the base year for the new series of national accounts?
(A) The survey data for that year was incomplete and could not be used for benchmarking.
(B) The methodology of the survey was found to be flawed and required a complete re-run.
(C) The year was not deemed "normal" as it followed the 2008 global recession.
(D) The population census data for that year was not yet available for statistical validation.

Ans :

(C) The year was not deemed "normal" as it followed the 2008 global recession.
The quinquennial Employment and Unemployment Survey (EUS) conducted in 2009-10 was not used for the base year because that period was considered abnormal due to the after-effects of the 2008 global recession. To ensure the base year reflects a stable and representative economic period, a new EUS was performed in 2011-12, which was then chosen.

May/June 2008

10. Which of the following data sources was used for updating the new National Accounts series with the base year 2011-12?
(A) All India Livestock Census, 2012.
(B) NSS 60th round on consumer expenditure.
(C) Population Census, 2001.
(D) NSS 65th round on unincorporated enterprises.

Ans :

(A) All India Livestock Census, 2012.
The new National Accounts series, with base year 2011-12, utilized several updated information sources to compile estimates. Among these were the NSS 68th round (2011-12), NSS 67th round (2010-11), Population Census 2011, and the All India Livestock Census, 2012, ensuring that the data used was recent and comprehensive.

Oct/Nov 2025

11. Which of the following represents the correct formula for GDP using the expenditure method?
(A) GDP = C + I + G - (X-M)
(B) GDP = C + I - G + (X-M)
(C) GDP = C - I + G + (X-M)
(D) GDP = C + I + G + (X-M)

Ans :

(D) GDP = C + I + G + (X-M)
The expenditure method calculates GDP by summing up all final expenditures in the economy. The formula is GDP = C + I + G + (X-M), where 'C' is Private Consumption, 'I' is Gross Investment, 'G' is Government Spending, and '(X-M)' represents Net Exports (Exports minus Imports). This formula captures the total demand for goods and services.

May/June 2015

12. In the context of the expenditure method of GDP calculation, which of the following is NOT included in Government spending (G)?
(A) Salaries of public servants.
(B) Transfer payments like social security benefits.
(C) Purchase of weapons for the military.
(D) Investment expenditure by the government.

Ans :

(B) Transfer payments like social security benefits.
Government spending (G) includes expenditures on final goods and services, such as public servant salaries and military purchases. However, it explicitly excludes transfer payments like social security or unemployment benefits. These are not payments for currently produced goods or services but are instead a redistribution of income, which is captured later in personal income calculations.

Oct/Nov 2006

13. Which of the following statements about Gross Investment (I) in the expenditure method of GDP calculation is incorrect?
(A) It includes the construction of a new mine.
(B) It includes the purchase of machinery and equipment for a factory.
(C) It includes investments in financial products like stocks and bonds.
(D) It includes expenditure on new houses.

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subsidies' as they support the production process itself.

Oct/Nov 2020

23. From a methodological standpoint, how is GVA typically derived?

(A) By aggregating all expenditures on final goods and services, representing the economy's demand side.

(B) By summing all factor incomes (wages, rent, interest, profit) earned within the economy.

(C) By calculating the net value of exports and imports and adding it to total domestic consumption.

(D) By summing the value-added contribution from all economic sectors like agriculture and industry, representing the supply side.

Ans :

(D) By summing the value-added contribution from all economic sectors like agriculture and industry, representing the supply side.

GVA is calculated from the supply side of the economy. It is derived by adding up the value-added by the various sectors, such as agriculture, industry, and services. This approach captures the income generated by all economic actors across the country during the production process, before the imposition of product taxes and subsidies.

May/June 2013

24. While GDP is considered a good measure for comparing economies, why is GVA often considered better for sectoral analysis?

(A) GVA provides a clearer view of sectoral production by excluding the distorting effects of product taxes and subsidies.

(B) GVA is more comprehensive for sectoral analysis because it includes the full impact of product taxes and subsidies.

(C) GVA is consistently a higher value than GDP, thus presenting a more optimistic picture of sectoral performance.

(D) GVA is simpler to calculate for sectoral analysis as it does not require complex data on international trade flows.

Ans :

(A) GVA provides a clearer view of sectoral production by excluding the distorting effects of product taxes and subsidies.

GVA is a better measure for comparing different sectors within an economy because it represents the value of production before the effects of product-specific taxes and subsidies. This provides a purer measure of the productive contribution of each sector, free from distortions caused by fiscal policies that may vary significantly across different products and sectors.

Oct/Nov 2008

25. What is the fundamental difference between Gross Domestic Product (GDP) and Gross National Product (GNP)?

(A) GDP is a gross measure that includes depreciation charges, while GNP is a net measure that excludes them.

(B) GDP is always calculated at final market prices, while GNP is exclusively calculated at factor cost.

(C) GDP measures all production within a country's borders, while GNP measures all production by a country's nationals.

(D) GDP measures only the output of the private sector, while GNP is a broader measure that includes the public sector.

Ans :

(C) GDP measures all production within a country's borders, while GNP measures all production by a country's nationals.

GDP measures the total value of goods and services produced within the geographical boundaries of a country, regardless of who owns the factors of production. In contrast, GNP measures the total value of output produced by the nationals (citizens) of a country, regardless of whether the production takes place domestically or abroad.

May/June 2020

26. Which formula correctly represents the relationship between GNP and GDP?

(A) GNP = GDP + NFIA

(B) GNP = GDP - NFIA

(C) GNP = GDP − Depreciation

(D) GNP = GDP + Net Indirect Taxes

Ans :

(A) GNP = GDP + NFIA

Gross National Product (GNP) is calculated by taking the Gross Domestic Product (GDP) and adding the Net Factor Income from Abroad (NFIA). NFIA is the difference between income earned by a country's residents from foreign sources and income paid to foreign residents for

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May/June 2017

18. What defines 'Factor Cost' in the context of national income accounting?
(A) The total cost of all factors of production used in producing a good or service.
(B) The final retail price of a product including all taxes.
(C) The market price of a good minus government subsidies.
(D) The cost of raw materials and intermediate goods only.

Ans :

(A) The total cost of all factors of production used in producing a good or service.
Factor cost represents the total cost incurred for all the factors of production that are consumed or used in the process of producing a good or service. These factors include land, labor, capital, and entrepreneurship, and their costs are rent, wages, interest, and profit, respectively. It is the price before any product taxes or subsidies.

Oct/Nov 2009

19. According to the definitions provided, what is the 'Basic Price'?
(A) The amount receivable by the producer, including any tax payable on the product.
(B) The market price minus all taxes and subsidies.
(C) The factor cost plus any production tax, minus any production subsidy.
(D) The cost of intermediate consumption plus wages.

Ans :

(C) The factor cost plus any production tax, minus any production subsidy.
The basic price is the amount a producer receives from a purchaser for a unit of output. It is calculated by starting with the factor cost, adding any production taxes (like land revenue) payable by the producer, and subtracting any production subsidies (like input subsidies) received by the producer as a consequence of production.

May/June 2023

20. Which of the following correctly describes the relationship between GVA at basic prices and GDP at market prices?
(A) $GDP_{mp} = GVA_{bp}$ – Product Taxes + Product Subsidies
(B) $GDP_{mp} = GVA_{bp}$ + Product Taxes + Product Subsidies
(C) $GDP_{mp} = GVA_{bp}$ – Production Taxes + Production Subsidies
(D) GDPmp = GVAbp + Production Taxes – Product Subsidies

Ans :

(D) $GDP_{mp} = GVA_{bp}$ + Production Taxes – Product Subsidies
Gross Value Added (GVA) at basic prices is a measure of output before product-level taxes and subsidies are applied. To get to the final market price (GDP), product taxes (like excise and sales tax) must be added, and product subsidies (like food and fertilizer subsidies) must be subtracted from the GVA at basic prices.

Oct/Nov 2015

21. Which of the following is an example of a 'Production Tax'?
(A) Excise tax on manufactured goods.
(B) Service tax on services provided.
(C) Stamps and registration fees.
(D) Subsidy on fertilizer sold to farmers.

Ans :

(C) Stamps and registration fees.
Production taxes are independent of the volume or quantity of production and are often imposed even if no products are produced. Examples include land revenues, stamps fees, and registration fees. In contrast, taxes like excise and service tax are 'product taxes' as they depend on the quantity or value of goods and services produced.

May/June 2006

22. Which of the following is an example of a 'Product Subsidy'?
(A) Input subsidies to farmers.
(B) Food and petroleum subsidies.
(C) Subsidies to Railways.
(D) Administrative subsidies to corporations.

Ans :

(B) Food and petroleum subsidies.
Product subsidies are paid or received per unit of a product. Food, petroleum, and fertilizer subsidies are classic examples as they are directly linked to the quantity of the subsidized product being sold or consumed. Subsidies to Railways or input subsidies to farmers are classified as 'production

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resources available for future investment and growth.

Oct/Nov 2013

31. According to the economic performance indicators table, what is the interpretation of the 'Operating surplus/gross value added' ratio?
(A) Income shares of capital in GDP
(B) Income shares of employees in GDP
(C) Saving rate of households
(D) The performance of the economy

Ans :

(A) Income shares of capital in GDP
The table of economic performance indicators shows that the ratio of 'Operating surplus/Gross value added' is interpreted as the income shares of capital in GDP. Operating surplus represents the income generated by capital (like profits and rents), and this ratio indicates its share relative to the total value added in the economy.

May/June 2025

32. How is Net Domestic Product (NDP) derived from Gross Domestic Product (GDP)?
(A) By adding Net Factor Income from Abroad to GDP.
(B) By subtracting depreciation from GDP.
(C) By subtracting net indirect taxes from GDP.
(D) By adding subsidies to GDP.

Ans :

(B) By subtracting depreciation from GDP.
Net Domestic Product (NDP) is derived by subtracting the value of depreciation (also known as consumption of fixed capital) from the Gross Domestic Product (GDP). Depreciation accounts for the wear and tear and obsolescence of capital goods used in the production process, so NDP represents the net output of the economy.

Oct/Nov 2010

33. Which of the following equations correctly shows the conversion from a 'Gross' aggregate to a 'Net' aggregate in national income accounting?
(A) Net = Gross + Depreciation
(B) Net = Gross - Depreciation
(C) Net = Gross − Indirect Taxes
(D) Net = Gross + NFIA

Ans :

(B) Net = Gross - Depreciation
In national income accounting, the term 'Gross' implies that the consumption of fixed capital (depreciation) has not been deducted. To arrive at a 'Net' figure, which represents the addition to capital stock after accounting for wear and tear, depreciation must be subtracted from the corresponding 'Gross' aggregate. Thus, Net = Gross - Depreciation.

May/June 2011

34. What is the relationship between Net National Product (NNP) at market prices and Net National Product (NNP) at factor cost?
(A) $NNP_{fc} = NNP_{mp} - \text{Net Indirect Taxes}$
(B) $NNP_{fc} = NNP_{mp} + \text{Net Indirect Taxes}$
(C) $NNP_{fc} = NNP_{mp} - \text{Depreciation}$
(D) $NNP_{fc} = NNP_{mp} + \text{Depreciation}$

Ans :

(A) $NNP_{fc} = NNP_{mp} - \text{Net Indirect Taxes}$
The transition from market prices (MP) to factor cost (FC) involves removing the effect of taxes and subsidies on products. Net Indirect Taxes are defined as indirect taxes minus subsidies. Therefore, to get to the factor cost, which reflects earnings of factors of production, Net Indirect Taxes must be subtracted from the market price value.

Oct/Nov 2024

35. What does Net Domestic Product at Factor Cost (NDP_{fc}) represent?
(A) The final market value of all goods and services produced within a country's borders.
(B) The total income available to households for consumption or saving after all taxes are paid.
(C) The total value of earnings received by all factors of production within the domestic territory.
(D) The gross domestic product of a country after subtracting the total value of its exports.

Ans :

(C) The total value of earnings received by all factors of production within the domestic territory.
Net Domestic Product at Factor Cost (NDP_{fc}) represents the total income earned by the factors of production (land, labor, capital, entrepreneurship) in the form of rent, wages, interest, and profit within the domestic territory of a country during a year. It is the sum of

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higher than GFCE (₹26,33,867 crore), GFCF (₹67,59,790 crore), and Exports (₹50,63,885 crore), making PFCE the largest component of expenditure in the Indian economy.

Oct/Nov 2007

45. A financial analyst is studying the "Provisional Estimates of National Income" table for 2020-21. They observe that 'Change in Stocks (CIS)' is negative (-11,764 crore). What is the most likely interpretation of this negative value?

(A) It indicates a significant calculation or data entry error in the national accounts.
(B) It signifies that the monetary value of existing stocks depreciated heavily during the year.
(C) It means the economy's firms sold more from inventories than they added, reducing overall stock levels.
(D) It implies that all previously held inventories were sold for export during the fiscal year.

Ans :

(C) It means the economy's firms sold more from inventories than they added, reducing overall stock levels.
Change in Stocks (CIS) measures the change in inventories held by firms. A negative value, as seen for 2020-21, indicates a de-stocking or drawdown of inventories. This means that during the period, firms collectively sold more goods than they produced, leading to a reduction in their overall level of stocks held from the beginning of the year.

May/June 2012

46. According to the "Share in GDP(%)" table for 2021-22, what was the approximate share of Gross Fixed Capital Formation (GFCF) in India's GDP?

(A) 11.1%
(B) 59.6%
(C) 21.4%
(D) 28.6%

Ans :

(D) 28.6%
The table titled "Share in GDP(%)" provides the percentage contribution of various expenditure components to the total GDP. For the year 2021-22, the row for Gross Fixed Capital Formation (GFCF) shows a value of 28.6%. This indicates that investment in fixed assets constituted over a quarter of India's economic output in that year.

Oct/Nov 2023

47. Based on the "Share in GDP(%)" data, how did the share of Imports in GDP change between 2020-21 and 2021-22?

(A) It increased from 19.1% to 23.9%.
(B) It decreased from 21.3% to 19.1%.
(C) It remained constant at 18.7%.
(D) It decreased from 23.9% to 21.4%.

Ans :

(A) It increased from 19.1% to 23.9%.
The "Share in GDP(%)" table shows that the share of Imports was 19.1% in 2020-21 (1st RE) and rose to 23.9% in 2021-22 (PE). This significant increase suggests a strong rebound in domestic demand for foreign goods and services as the economy recovered, outpacing the growth of GDP itself during that period.

May/June 2005

48. What was the percentage change in Per Capita NNI (Net National Income) at current prices for the year 2021-22?

(A) 18.4%
(B) 18.3%
(C) 18.1%
(D) 16.0%

Ans :

(B) 18.3%
The table "Per Capita Income, Product and Final Consumption" provides data on per capita metrics. For the item 'Per Capita NNI (₹)', the percentage change for the year 2021-22 over the previous year is listed as 18.3%. This indicates a substantial growth in the average income per person in the country during that fiscal year.

Oct/Nov 2016

49. Based on the table, which two sectors registered the same highest real growth rate of 11.5% in 2021-22?

Industry	2020-21 (1st RE)	2021-22 (PE)	% Change 2021-22
Mining & Quarrying	2,94,024	3,27,984	11.5
Manufacturing	22,47,740	24,70,822	9.9
Construction	9,62,835	10,73,595	11.5
Trade, Hotels, Transport	21,47,679	23,85,605	11.1

(A) Manufacturing and Construction
(B) Mining & Quarrying and Construction

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(A) PDI =Personal Income -Personal Taxes (Direct Taxes, Fines, Fees)
(B) PDI =Personal Income +Personal Taxes
(C) PDI =Private Income -Corporate Taxes
(D) PDI =National Income -All Taxes

Ans :

(A) PDI =Personal Income -Personal Taxes (Direct Taxes, Fines, Fees)
Personal Disposable Income (PDI) represents the portion of Personal Income that is available to individuals for actual consumption or saving. It is calculated by subtracting all personal direct taxes, as well as non-tax payments like fines and fees to the government, from the total Personal Income received by the households.

Oct/Nov 2021

41. The formula National Income = NNP_{fc} is equivalent to which of the following?
(A) NNP_{mp} +Indirect taxes -subsidies
(B) GDP_{mp} -Depreciation
(C) NNP_{mp} -Net Indirect Taxes
(D) GNP_{mp} +Net Indirect Taxes

Ans :

(C) NNP_{mp} -Net Indirect Taxes
National Income is conceptually equivalent to Net National Product at Factor Cost (NNP_{fc}). To derive this from Net National Product at Market Prices (NNP_{mp}), one must subtract the net effect of indirect taxes and subsidies. Therefore, National Income is equal to NNP_{mp} minus Net Indirect Taxes (Indirect taxes - subsidies).

May/June 2014

42. What was the significant organizational change announced by the Indian government on 23rd May 2019 regarding its statistical bodies?
(A) The strategic merger of the NSSO with the CSO to form the new National Statistical Office (NSO).
(B) The administrative merger of the Central Statistics Office (CSO) and the Ministry of Finance.
(C) The initial formation of the National Statistical Commission (NSC) to oversee all statistical work.
(D) The complete privatization of the National Sample Survey Organisation (NSSO) to a third party.

Ans :

(A) The strategic merger of the NSSO with the CSO to form the new National Statistical Office (NSO).
On 23rd May 2019, the Indian government ordered the merger of two key statistical bodies: the National Sample Survey Organisation (NSSO) and the Central Statistics Office (CSO). This merger resulted in the creation of the National Statistical Office (NSO), which operates under the Ministry of Statistics and Programme Implementation (MoSPI).

Oct/Nov 2014

43. Based on the table "Provisional Estimates of National Income and Expenditure Components of GDP, 2021-22 (at Current Prices)", what was the percentage change in GVA at Basic Prices for the year 2021-22 over the previous year?
(A) -1.6%
(B) 19.5%
(C) 32.8%
(D) 18.2%

Ans :

(D) 18.2%
As per the data presented in the table for Provisional Estimates for 2021-22, the 'GVA at Basic Prices' is listed as item 1. The column 'Percentage Change Over Previous Year' for 2021-22 shows a value of 18.2%. This indicates a strong recovery and growth in the gross value added across the economy during that fiscal year.

May/June 2021

44. Using the data from the table "Provisional Estimates of National Income and Expenditure Components of GDP, 2021-22 (at Current Prices)", which expenditure component had the highest value in 2021-22 (PE)?
(A) Government Final Consumption Expenditure (GFCE)
(B) Private Final Consumption Expenditure (PFCE)
(C) Gross Fixed Capital Formation (GFCF)
(D) Exports

Ans :

(B) Private Final Consumption Expenditure (PFCE)
According to the table, for the year 2021-22 (Provisional Estimates), the value of Private Final Consumption Expenditure (PFCE) was ₹1,40,95,405 crore. This value is significantly

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Compensation of Employees, Operating Surplus, and Mixed Income.

May/June 2022

36. An Indian multinational company operates a factory in the United States. The profits earned from this US-based factory will be included in:

(A) The GDP of India, as the company is Indian, and the GNP of the US, as production occurred there.

(B) Both the GDP and GNP of India, because the company is owned by Indian nationals.

(C) Both the GDP and GNP of the US, because the factory is physically located in the US.

(D) The GNP of India, as it's a national company, and the GDP of the US, as production occurred there.

Ans :

(D) The GNP of India, as it's a national company, and the GDP of the US, as production occurred there.

GDP measures production within a country's geographical borders, so the factory's output is part of the US GDP. GNP measures production by a country's nationals, regardless of location. Since the company is Indian-owned, its profits are part of India's GNP. This illustrates the core distinction between the domestic (GDP) and national (GNP) concepts.

Oct/Nov 2005

37. How is Net Domestic Product (NDP) derived from Net National Product (NNP)?

(A) NDP = NNP -Depreciation

(B) NDP = NNP +Depreciation

(C) NDP = NNP -Net Factor Income from Abroad (NFIA)

(D) NDP = NNP +Net Factor Income from Abroad (NFIA)

Ans :

(C) NDP = NNP -Net Factor Income from Abroad (NFIA)

The difference between a 'National' product (NNP) and a 'Domestic' product (NDP) is the Net Factor Income from Abroad (NFIA). To convert from the national concept (which includes income from abroad) to the domestic concept (which excludes it), one must deduct the NFIA. Therefore, the formula is NDP = NNP - NFIA.

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May/June 2018

38. What is 'Personal Income'?

(A) The total gross income earned by all factors of production before any deductions.

(B) The income actually received by individuals and households before personal taxes are paid.

(C) The final income available for households to spend or save after all taxes are deducted.

(D) The combined total profits earned by all private and public sector corporations.

Ans :

(B) The income actually received by individuals and households before personal taxes are paid.

Personal Income is the income that is actually received by individuals and households during an accounting year. It is calculated from National Income by subtracting components that are earned but not received (like undistributed profits and corporate taxes) and adding components that are received but not currently earned (like transfer payments from the government).

Oct/Nov 2017

39. Which of the following components is subtracted from National Income to calculate Private Income?

(A) Interest paid on the national debt, which is a government transfer payment.

(B) Net current transfers from the Government, such as social security benefits.

(C) Current transfers from abroad, such as remittances received from family.

(D) Savings of non-departmental enterprises owned and operated by the Government.

Ans :

(D) Savings of non-departmental enterprises owned and operated by the Government.

Private Income is derived from National Income by subtracting the income from property and entrepreneurship accruing to government administrative departments and the savings of non-departmental government enterprises. It includes transfer payments from the government and the rest of the world, focusing on the income of the private sector, including households and private corporations.

May/June 2007

40. How is Personal Disposable Income (PDI) calculated?

(C) Mining & Quarrying and Trade, Hotels, Transport...
(D) Manufacturing and Trade, Hotels, Transport...

Ans :

(B) Mining & Quarrying and Construction
According to the provided data on GVA at constant (2011-12) prices, the percentage change for 2021-22 over the previous year is shown in the last column. Both the 'Mining & Quarrying' sector and the 'Construction' sector are listed with a growth rate of 11.5%, which was the joint highest among the sectors shown.

May/June 2019

50. Referring to the "Provisional Estimates of GVA at Basic Prices by Economic Activity (at 2011-12 Prices)", which sector experienced the lowest positive growth rate in 2021-22?
(A) Agriculture, Forestry & Fishing
(B) Financial, Real Estate & Professional Services
(C) Public Administration, Defence & Other Services
(D) Electricity, Gas, Water Supply & Other Utility Services

Ans :

(A) Agriculture, Forestry & Fishing
The table shows the real GVA growth rates for 2021-22. Agriculture, Forestry & Fishing grew by 3.0%. Financial, Real Estate & Professional Services grew by 4.2%. Electricity, Gas, Water Supply & Other Utility Services grew by 7.5%. Public Administration, Defence & Other Services grew by 12.6%. Therefore, Agriculture had the lowest positive growth rate.

Oct/Nov 2011

51. Consider the following statements regarding the 2021-22 GVA growth at constant (2011-12) prices:
1. The 'Trade, Hotels, Transport, Communication...' sector grew by 11.1%.
2. The 'Public Administration, Defence & Other Services' sector grew by 12.6%.
3. The overall GVA at Basic Prices grew by 8.1%.

Which of the above statements is/are correct?
(A) Only 1
(B) Only 1 and 2
(C) Only 2 and 3
(D) All 1, 2, and 3

Ans :

(D) All 1, 2, and 3
Based on the table "Provisional Estimates of GVA at Basic Prices by Economic Activity (at 2011-12 Prices)", all three statements are factually correct. The growth for 'Trade, Hotels, Transport...' was 11.1%, 'Public Administration...' was 12.6%, and the aggregate 'GVA at Basic Prices' for the entire economy grew by 8.1% in 2021-22.

May/June 2008

52. An economist compares the growth rate of the 'Manufacturing' sector for 2021-22 using data at constant prices (9.9%) and current prices (22.1%). What does the significant difference between these two growth rates primarily indicate?
(A) A sharp and unprecedented increase in manufacturing sector employment during the year.
(B) A noticeable decline in the overall quality and durability of the manufactured goods produced.
(C) A systematic error in the data collection methodology used for calculating current prices.
(D) A high level of price inflation within the manufacturing sector during that fiscal year.

Ans :

(D) A high level of price inflation within the manufacturing sector during that fiscal year.
Growth at current prices reflects changes in both volume (real growth) and prices (inflation). Growth at constant prices reflects only the change in volume. The substantial gap between the nominal growth (22.1%) and real growth (9.9%) indicates that a large portion of the increase in the value of manufacturing output was due to price increases, i.e., inflation.

Oct/Nov 2025

53. The government announces a new policy to increase subsidies for small-scale industries. According to the SNA framework, this subsidy would be classified as a:
(A) Product subsidy, which directly reduces the final market price of the manufactured goods.
(B) Simple transfer payment, which has no direct impact on GVA or GDP calculations.
(C) Production subsidy, which supports the overall production activity of the industries involved.

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(D) Negative production tax, which has the effect of increasing the factor cost for producers.

Ans :

(C) Production subsidy, which supports the overall production activity of the industries involved.
Subsidies provided to industries, such as to village and small industries or administrative subsidies to corporations, are classified as production subsidies. They are not tied to the specific quantity or price of a single unit of output but rather support the general production environment. This is distinct from product subsidies which are per-unit based.

May/June 2015

54. A state government increases the registration fees for property transactions. How would this fiscal measure be treated in the calculation of GVA at basic prices?
(A) It is treated as a product tax, added to GVA at basic prices to calculate GDP at market prices.
(B) It is classified as a production tax, which is added to factor cost to arrive at the basic price.
(C) It is considered a direct tax on wealth, and is therefore excluded from all GVA and GDP calculations.
(D) It is treated as a product subsidy, and is therefore subtracted from the GVA at basic prices.

Ans :

(B) It is classified as a production tax, which is added to factor cost to arrive at the basic price.
Registration fees, along with stamp duties and land revenues, are classified as production taxes. They are independent of the volume of production. In the GVA calculation framework, production taxes are added to the factor cost to determine the GVA at basic prices. The formula is $GVA_{Basic\ Prices}$ = Factor Cost + Production Taxes - Production Subsidies.

Oct/Nov 2006

55. Which of the following correctly pairs the economic concept with its definition?
(A) Real GDP: Value of today's output at today's price.
(B) Factor Cost: Total cost of intermediate goods used in production.
(C) Basic Price: Amount receivable by the producer, including any tax payable on that unit.
(D) Market Price: Price at which a product is sold, including taxes and excluding subsidies.

Ans :

(D) Market Price: Price at which a product is sold, including taxes and excluding subsidies.
Market price is the final price paid by the consumer in the marketplace. It is comprehensive, including the cost of production (wages, rent, profit), all product taxes imposed by the government (like GST), and it is reduced by any product subsidies provided by the government. The other options are incorrectly defined.

May/June 2024

56. Identify the incorrect statement regarding national income concepts.
(A) GDP is a better measure than GVA for comparing the performance of different sectors within an economy.
(B) GDP at market prices measures output value after adjusting for the net effect of indirect taxes and subsidies.
(C) GVA is a supply-side measure that captures the income generated by all economic actors in a country.
(D) GDP can be calculated by taking GVA and adding net taxes (which are taxes minus subsidies).

Ans :

(A) GDP is a better measure than GVA for comparing the performance of different sectors within an economy.
This statement is incorrect. GVA is considered a better measure for comparing different sectors within the economy because it reflects the pure value added by production, free from the varying effects of product taxes and subsidies. GDP, which includes these net taxes, is more suitable for comparing the overall size and growth of different national economies.

Oct/Nov 2018

57. Assertion (A): A country can have a high GDP but a low level of human welfare.
Reason (R): GDP is an aggregate measure that does not reflect income distribution, health, or education levels.
(A) Both A and R are true, and R is the correct

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explanation of A.
(B) Both A and R are true, but R is not the correct explanation of A.
(C) A is true, but R is false.
(D) A is false, but R is true.

Ans :

(A) Both A and R are true, and R is the correct explanation of A.
Assertion (A) is correct, as high economic output does not guarantee broad-based well-being. Reason (R) correctly explains this by stating that GDP is a narrow metric. It does not account for income inequality, or social development indicators like health, education, and sanitation, which are crucial components of overall human welfare.

May/June 2010

58. Match List-I with List-II and select the correct code.

	List-I (Term)		List-II (Belongs to)
P.	Salaries of public servants	1.	Gross Investment (I)
Q.	Purchase of new machinery	2.	Government Spending (G)
R.	Social security payments	3.	Not included in GDP (Expenditure Method)
S.	Purchase of a new house	4.	Consumption (C)

Code:
(A) P-2, Q-1, R-3, S-1
(B) P-4, Q-1, R-2, S-1
(C) P-2, Q-3, R-1, S-4
(D) P-2, Q-1, R-3, S-4

Ans :

(A) P-2, Q-1, R-3, S-1
Salaries of public servants are part of Government Spending (G). Purchase of new machinery is a business investment, part of Gross Investment (I). Social security is a transfer payment and not included. Expenditure on new houses is considered part of Gross Investment (I). Therefore, the correct matching is P-2, Q-1, R-3, S-1.

Oct/Nov 2022

59. Consider the following three statements:
1. GDP_{mp} is derived by adding net product taxes to GVA_{bp}.
2. GVA_{bp} is derived by adding net production taxes to GVA_{fc}.
3. GDP_{mp} is derived by adding net production taxes and net product taxes to GVA_{fc}.

Which of the statements is/are correct?
(A) Only 1
(B) Only 1 and 2
(C) Only 2 and 3
(D) All 1, 2, and 3

Ans :

(D) All 1, 2, and 3
All three statements correctly describe the relationships. Statement 1 is correct (GDP_{mp} = GVA_{bp} + Net Product Taxes). Statement 2 is correct (GVA_{bp} = GVA_{fc} +Net Production Taxes). Statement 3 logically combines the first two, showing the full transition from factor cost to market prices, making it also correct.

May/June 2017

60. From which of the following is 'undistributed profits' subtracted to arrive at Personal Income?
(A) Gross Domestic Product
(B) Private Income
(C) Personal Disposable Income
(D) Net National Product

Ans :

(B) Private Income
Personal Income is the income received by households. Private Income includes the income of both households and private corporations. To get from Private Income to Personal Income, the portion of corporate income that is not distributed to households, such as undistributed profits and corporate taxes, must be subtracted.

Oct/Nov 2009

61. What does the term 'Operating Surplus' in national income accounting primarily consist of?
(A) The total compensation paid to employees, including all wages and salaries.
(B) The combined mixed income earned by all self-employed individuals in the economy.
(C) The income from capital and entrepreneurship, including rent, interest, profit, and dividend.
(D) The total value of all direct and indirect taxes collected by the central government.

Ans :

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(C) The income from capital and entrepreneurship, including rent, interest, profit, and dividend.
Operating Surplus is a component of the income approach to GDP. It represents the income earned from capital and entrepreneurship as factors of production. It is calculated as the sum of rent, interest, profit, and dividends, along with other similar income streams, before the deduction of any direct taxes on this income.

May/June 2023

62. Which of the following is NOT a component used in the calculation of National Income via the income approach as described in the chapter?
(A) Wage + Rent + Interest + Dividend
(B) Mixed Income from Self Employed
(C) Net Factor Income from Abroad (NFIA)
(D) Net Exports of Goods and Services

Ans :

(D) Net Exports of Goods and Services
The income approach sums up all incomes earned by factors of production. The components include wages, rent, interest, profits, and mixed income, adjusted by NFIA. Net Exports ((X-M)) is a primary component of the expenditure approach (GDP = C+I+G+(X-M)), not the income approach to calculating national income.

Oct/Nov 2015

63. What is the correct formula to calculate Real Net National Product (NNP)?
(A) $\text{Real NNP} = \text{NNP for Current Year} \times \frac{\text{Base Year Index}}{\text{Current Year Index}}$
(B) $\text{Real NNP} = \text{NNP for Current Year} \times \frac{\text{Current Year Index}}{\text{Base Year Index}}$
(C) Real NNP = NNP for Current Year -Inflation Rate
(D) Real NNP = NNP for Current Year + Depreciation

Ans :

(A) $\text{Real NNP} = \text{NNP for Current Year} \times \frac{\text{Base Year Index}}{\text{Current Year Index}}$

To calculate the real value of an economic variable like NNP, its nominal (current year) value must be adjusted for price changes using a price index. The correct method is to deflate the current year NNP by the price index, which is achieved by multiplying it by the ratio of the Base Year Index to the Current Year Index.

May/June 2006

64. Identify the incorrect pair from the following national income aggregate formulas.
(A) $GDP_{mp} = GNP_{mp}$ - NFIA
(B) NNDI = GNDI + Net Current transfers from rest of the world
(C) $NDP_{mp} = GDP_{mp}$ - Depreciation
(D) $NNP_{mp} = GNP_{mp}$ - Depreciation

Ans :

(B) NNDI = GNDI + Net Current transfers from rest of the world
The incorrect formula is for Net National Disposable Income (NNDI). NNDI is derived from Gross National Disposable Income (GNDI) by subtracting depreciation, not by adding transfers.
The formula for GNDI is
GNP_{mp} + Net Current transfers.
The formula for NNDI is
NNP_{mp} + Net Current transfers.
The given option is logically inconsistent.

Oct/Nov 2020

65. Which of the following steps is incorrect in the sequence of deriving one aggregate from another?
(A) To get from GDP to NDP, deduct Depreciation.
(B) To get from GDP_{mp} to GNP_{mp}, deduct Net Factor Income from Abroad.
(C) To get from NDP_{mp} to NDP_{fc}, deduct net indirect taxes.
(D) To get from GNP to NNP, deduct Depreciation.

Ans :

(B) To get from GDP_{mp} to GNP_{mp}, deduct Net Factor Income from Abroad.
This statement is incorrect. To move from a 'Domestic' concept (GDP) to a 'National' concept (GNP), one must ADD the Net Factor Income from Abroad (NFIA), not deduct it. The correct relationship is $GNP_{mp} = GDP_{mp}$ + NFIA. Deducting NFIA would convert GNP to GDP, which is the reverse of what is stated.

NODIA

May/June 2013

66. As per the table on GVA at Current Prices, which sector showed the highest percentage growth in 2021-22?
(A) Mining & Quarrying
(B) Agriculture, Forestry & Fishing
(C) Manufacturing
(D) Construction

Ans :

(A) Mining & Quarrying
According to the "Provisional Estimates of GVA at Basic Prices by Economic Activity (at Current Prices)" table, the 'Mining & Quarrying' sector registered a growth of 57.9% in 2021-22 over the previous year. This was the highest growth rate among all the listed sectors, significantly outpacing others like Construction (30.7%) and Manufacturing (22.1%).

Oct/Nov 2008

67. Which of the following statements about GDP as a measure is explicitly mentioned as a limitation in the "Let Us Sum Up" section?
(A) It incorrectly includes the total value of all intermediate goods used in production.
(B) It is always calculated at factor cost, thereby ignoring crucial market price signals.
(C) It does not provide any information about how income is distributed among the population.
(D) It only measures the output generated by the public sector, excluding private enterprise.

Ans :

(C) It does not provide any information about how income is distributed among the population.
The "Let Us Sum Up" section explicitly states that "GDP is an 'aggregate' measure. It does not speak anything about how the GDP is distributed among the population of the country." This highlights income distribution as a key limitation of GDP as a welfare indicator, which is a central theme discussed in the chapter's utility section.

May/June 2020

68. The "Keywords" section lists "'green' GDP". This concept primarily addresses the need to account for what aspect in economic measurement?
(A) The need to account for the growth of the primary agricultural sector.
(B) The need to measure the total share of exports in the national income.
(C) The need to track the distribution of income across different population quintiles.
(D) The need to measure the impact of economic activity on the environment.

Ans :

(D) The need to measure the impact of economic activity on the environment.
The concept of 'green' GDP, as discussed in the utility section and listed as a keyword, was developed to measure economic growth while also accounting for its environmental costs. It adjusts the traditional GDP figure downwards to reflect the depletion of natural resources and the costs associated with pollution and environmental degradation caused by production.

Oct/Nov 2012

69. Which of the following four statements regarding the 2008 SNA revision in India are correct?
1. The headline growth rate is now measured by GDP at constant market prices.
2. GVA is now estimated at basic prices instead of factor cost.
3. The base year was shifted from 2004-05 to 2011-12.
4. The MCA21 database was used for better coverage of the corporate sector.
(A) Only 1 and 3
(B) Only 2, 3, and 4
(C) Only 1, 2, and 3
(D) All 1, 2, 3, and 4

Ans :

(D) All 1, 2, 3, and 4
All four statements correctly identify the major changes incorporated in the revision of National Accounts based on SNA 2008 in India. The shift to GDP at market prices for headline growth, GVA at basic prices, the base year update to 2011-12, and the use of the MCA21 database were all key features of this comprehensive revision exercise.

May/June 2009

70. Which of the following are correctly identified as factors of production?
(A) Land, Labour, and Capital
(B) Land, Labour, Capital, and Entrepreneur
(C) Assets, Machineries, and Money
(D) Durable goods, Non-durable goods, and Services

Ans :

(B) Land, Labour, Capital, and Entrepreneur
In economics, the factors of production are the inputs used in the production process to create output (goods and services). The four recognized factors are land (natural resources), labour (human effort), capital (man-made goods used in production), and entrepreneurship (the entity

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(A) External Grants received
(B) Disinvestment Proceeds
(C) States' Share of taxes
(D) Market Borrowings

Ans :

(C) States' Share of taxes
Net Tax Revenue, which represents the actual tax proceeds available to the Central Government, is calculated by deducting two main items from the Gross Tax Revenue. These deductions are the amount transferred to the National Calamity Contingency Fund (NCCD) and the constitutionally mandated share of taxes that is devolved to the State Governments.

May/June 2024

6. Which of the following items is correctly categorized as a Non-Tax Revenue receipt for the government?
(A) Service Tax
(B) External Grants
(C) Wealth Tax
(D) Corporation tax

Ans :

(B) External Grants
External Grants, which are received from foreign governments and international organizations, are classified as Non-Tax Revenue. This is because they are not compulsory payments or taxes levied by the government. In contrast, Service Tax, Wealth Tax, and Corporation tax are all forms of taxes and are therefore part of the government's Tax Revenue.

Oct/Nov 2017

7. The Total Revenue Receipts of the government are calculated by summing which two components?
(A) Gross Tax Revenue and Total Non-Tax Revenue
(B) Gross Tax Revenue and Capital Receipts
(C) Net Tax Revenue and Debt Receipts
(D) Net Tax Revenue and Total Non-Tax Revenue

Ans :

(D) Net Tax Revenue and Total Non-Tax Revenue
Total Revenue Receipts represent the total income of the government that does not create a liability or reduce assets. This is correctly calculated by adding the Net Tax Revenue (the portion of tax collections retained by the Centre) and the Total Non-Tax Revenue (income from sources like interest, dividends, grants, and other administrative services).

May/June 2011

8. Identify the item that is classified as a Non-debt Capital Receipt in the Union Budget.
(A) Recoveries of Loans & Advances
(B) Market Borrowings
(C) External Debt
(D) Securities against Small Savings

Ans :

(A) Recoveries of Loans & Advances
Recoveries of Loans & Advances are classified as Non-debt Capital Receipts because they represent the recovery of previously lent funds, which reduces the government's financial assets but does not create new debt. In contrast, Market Borrowings, External Debt, and Securities against Small Savings are all forms of borrowings, categorizing them as Debt Receipts.

Oct/Nov 2025

9. Which of the following is a component of Debt Receipts for the Union Government?
(A) Disinvestment Receipts
(B) External Grants
(C) State Provident Funds
(D) Receipts of Union Territories

Ans :

(C) State Provident Funds
State Provident Funds are considered a form of borrowing by the central government and are therefore classified under Debt Receipts, which are a component of Capital Receipts. Disinvestment Receipts are non-debt capital receipts, External Grants are non-tax revenue receipts, and Receipts of Union Territories are a part of non-tax revenue receipts, distinguishing them from debt-creating inflows.

May/June 2019

10. The sum of Non-debt Receipts and Debt Receipts constitutes which major component of the Union Budget?
(A) Capital Receipts
(B) Total Revenue Receipts
(C) Total Receipts
(D) Gross Tax Revenue

Ans :

(A) Capital Receipts

NODIA

CHAPTER 19
Union Budget

Oct/Nov 2013

1. According to the procedural changes in the presentation of the Union Budget, from which year was the presentation date shifted to the first of February?
(A) 2015
(B) 2017
(C) 2016
(D) 2018

Ans :

(B) 2017
Until 2016, the Union Budget was presented on the last working day of February. The date was advanced to the first of February starting from the year 2017. This change was implemented to provide the government with sufficient time to ensure the budget's provisions are implemented from the beginning of the new financial year on April 1st.

May/June 2007

2. What significant structural change concerning the presentation of budgets was introduced in the Union Budget from the year 2017?
(A) The merger of the Rail Budget with the Union Budget.
(B) The introduction of a separate budget for Union Territories.
(C) The discontinuation of the presentation by the Finance Minister.
(D) The shifting of the financial year to a calendar year basis.

Ans :

(A) The merger of the Rail Budget with the Union Budget.
A notable change introduced from 2017 was the merger of the Rail Budget with the general Union Budget. Previously, the Rail Budget was presented as a separate document by the Union Railways Minister. This merger aimed to streamline the budgetary process and present a more holistic financial picture of the government's finances and plans.

NODIA

Oct/Nov 2021

3. Which of the following is classified as a component of Gross Tax Revenue in the Union Budget?
(A) Interest Receipts
(B) External Grants
(C) Goods and Services Tax (GST)
(D) Disinvestment Receipts

Ans :

(C) Goods and Services Tax (GST)
Goods and Services Tax (GST), which includes CGST, IGST, and GST Compensation Cess, is a primary component of the Gross Tax Revenue for the Union Government. Interest Receipts and External Grants are classified under Non-Tax Revenue, while Disinvestment Receipts are a form of Non-debt Capital Receipts, making them distinct from tax-based income sources.

May/June 2015

4. Which of the following items is NOT considered part of the Gross Tax Revenue of the Union Government?
(A) Corporation tax
(B) Customs
(C) Union Excise Duties
(D) Dividend and Profits

Ans :

(D) Dividend and Profits
Dividend and Profits received by the government, typically from public sector enterprises and the Reserve Bank of India, are classified under Total Non-Tax Revenue. In contrast, Corporation tax, Customs duties, and Union Excise Duties are all direct or indirect taxes and are therefore integral components of the Gross Tax Revenue collection for the government.

Oct/Nov 2009

5. The formula for calculating Net Tax Revenue is Gross tax revenue minus NCCD transferred to the National Calamity Contingency Fund and what other component?

debt Receipts.
(C) External Grants are classified under Tax Revenue.
(D) GST Compensation Cess is a Non-Tax Revenue.

Ans :

(A) Disinvestment Receipts are a part of Capital Receipts.
Disinvestment Receipts, which arise from the sale of government equity in public sector undertakings, are correctly classified as a component of Capital Receipts (specifically, Non-debt Capital Receipts). Market borrowings are Debt Receipts, External Grants are Non-Tax Revenue, and GST Compensation Cess is a part of Gross Tax Revenue, making the other statements incorrect classifications.

May/June 2021

16. Which of the following is an example of Revenue Expenditure of the Government of India?
(A) Loans to Public Enterprises
(B) Interest Payments and Prepayment Premium
(C) Defence capital outlay
(D) Loans to State and U.T. Governments

Ans :

(B) Interest Payments and Prepayment Premium
Interest Payments and Prepayment Premium are classified as Revenue Expenditure because they are recurring in nature and do not lead to the creation of any physical or financial assets for the government. In contrast, loans to public enterprises, defence capital outlay, and loans to state governments are all forms of Capital Expenditure as they create assets.

Oct/Nov 2010

17. Which of the following items is NOT considered a Revenue Expenditure?
(A) Subsidies (e.g., fertiliser/food/petroleum support)
(B) Other Non-plan Capital Outlay
(C) Pensions for retired central government personnel
(D) Police and related internal security expenditures

Ans :

(B) Other Non-plan Capital Outlay
Other Non-plan Capital Outlay is explicitly a Capital Expenditure, as it involves spending that creates assets for the government. Subsidies, Pensions, and expenditure on Police are all recurring expenses that do not create assets and are therefore correctly classified as Revenue Expenditure. This distinction is crucial for understanding the nature of government spending.

May/June 2014

18. Identify the item that falls under the category of Capital Expenditure in the Union Budget.
(A) Loans to Foreign Governments
(B) Grants to State and U.T. Governments
(C) Social Services (Education, Health, Broadcasting, etc.)
(D) Postal Deficit

Ans :

(A) Loans to Foreign Governments
Loans to Foreign Governments are classified as Capital Expenditure because they create a financial asset for the Government of India in the form of receivables. In contrast, Grants to State and U.T. Governments, spending on Social Services, and the Postal Deficit are all considered Revenue Expenditures as they are recurring and do not create assets.

Oct/Nov 2007

19. The 'Expenditure of Government of India' table categorizes government spending into 'Centre's Expenditure' and which other major head?
(A) Public Debt
(B) Contingency Fund
(C) Transfers
(D) State Expenditure

Ans :

(C) Transfers
The table on 'Expenditure of Government of India' shows a primary classification of spending. The two main categories are 'A. Centre's Expenditure', which includes establishment costs and central sector schemes, and 'B. Transfers'. This 'Transfers' category includes Centrally Sponsored Schemes, Finance Commission Grants, and other grants or loans transferred to states and other entities.

May/June 2025

20. Referring to the 'Expenditure of Government of India' table, what was the budgeted amount for

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Capital Receipts are defined as the sum of Non-debt Receipts and Debt Receipts. Non-debt receipts include items like disinvestment proceeds and loan recoveries, which do not create future liabilities. Debt receipts, such as market borrowings and external debt, are those that create a corresponding liability for the government to repay in the future.

Oct/Nov 2014

11. The financing of the fiscal deficit is primarily achieved through which combination of financial inflows?
(A) Net Tax Revenue + Non-Tax Revenue
(B) Disinvestment Receipts + Loan Recoveries
(C) External Grants + Internal Debt
(D) Debt Receipts + Draw-Down of Cash Balance

Ans :

(D) Debt Receipts + Draw-Down of Cash Balance
The fiscal deficit represents the government's total borrowing requirement. This gap between expenditure and non-debt creating receipts is financed through two main sources. These are Debt Receipts, which include all forms of borrowing, and the Draw-Down of the government's existing Cash Balance held with the Reserve Bank of India, which is used to meet the shortfall.

May/June 2005

12. Based on the 'Receipts' table for the Union Budget, what was the Budget Estimate for Corporation Tax for the financial year 2022-23?
(A) ₹635000 crore
(B) ₹720000 crore
(C) ₹700000 crore
(D) ₹547000 crore

Ans :

(B) ₹720000 crore
The 'Receipts' table provides detailed financial figures for various budget components. For the financial year 2022-23, under the 'Budget Estimates' column, the figure corresponding to 'a. Corporation Tax' is explicitly stated as ₹720000 crore. This represents the government's projected income from the tax levied on the profits of domestic and foreign companies operating in India.

Oct/Nov 2022

13. As per the 'Receipts' table, how did the Revised Estimate for Disinvestment Receipts in 2021-2022 compare to its Budget Estimate for the same year?
(A) It was significantly higher than the Budget Estimate.
(B) It was exactly the same as the Budget Estimate.
(C) It was significantly lower than the Budget Estimate.
(D) It was marginally higher than the Budget Estimate.

Ans :

(C) It was significantly lower than the Budget Estimate.
The 'Receipts' table shows that the Budget Estimate for 'Disinvestment Receipts' for 2021-2022 was ₹175000 crore. However, the Revised Estimate for the same year for this item was only ₹78000 crore. This indicates a substantial downward revision, meaning the actual collections from disinvestment were projected to be significantly lower than initially targeted.

May/June 2018

14. An analyst is reviewing the Union Government's capital receipts for 2020-21. Based on the data in the 'Receipts' table, if the government's only non-debt capital receipts were from Recoveries of loans and Disinvestment, what was the total value of these receipts in 2020-21?
(A) ₹1883105 crore
(B) ₹37897 crore
(C) ₹19729 crore
(D) ₹57626 crore

Ans :

(D) ₹57626 crore
According to the 'Actuals' column for 2020-21 in the 'Receipts' table, 'Recoveries of loans and advances' were ₹19729 crore and 'Disinvestment Receipts' were ₹37897 crore. The total non-debt capital receipts would be the sum of these two, which is ₹ 19729 + ₹ 37897 = ₹ 57626 crore.

Oct/Nov 2016

15. Identify the correct statement regarding the components of the Union Budget's receipt side.
(A) Disinvestment Receipts are a part of Capital Receipts.
(B) Market Borrowings are classified under Non-

that combines the other three factors and bears the risk).

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'Interest Payments' for the financial year 2022-23?
(A) ₹813791 crore
(B) ₹1021631 crore
(C) ₹809701 crore
(D) ₹940651 crore

Ans :

(D) ₹940651 crore
The table titled 'Expenditure of Government of India' provides a line item for 'Interest Payments' under 'Other Central Sector Expenditure'. For the financial year 2022-23, the amount specified in the 'Budget Estimates' column for Interest Payments is ₹940651 crore. This represents a significant portion of the government's non-asset-creating revenue expenditure.

Oct/Nov 2019

21. A budget analyst is examining the transfers to states for the fiscal year 2020-21. Based on the 'Expenditure of Government of India' table, what was the combined actual expenditure on 'Centrally Sponsored Schemes' and 'Finance Commission Grants' in that year?
(A) ₹602148 crore
(B) ₹383976 crore
(C) ₹568039 crore
(D) ₹184063 crore

Ans :

(C) ₹568039 crore
From the 'Actuals' column for 2020-21 in the expenditure table, the amount for 'Centrally Sponsored Schemes' was ₹383976 crore. The amount for 'Finance Commission Grants' was ₹184063 crore. The combined expenditure on these two transfer items is the sum of these figures, which equals ₹ 383976 + ₹ 184063 = ₹ 568039 crore.

May/June 2009

22. What does the term 'Effective Capital Expenditure' of the Government represent?
(A) Total Capital Expenditure minus Defence Capital Outlay.
(B) Capital Expenditure plus Grants in Aid for creation of capital assets.
(C) Total Expenditure minus Revenue Expenditure.
(D) Total Capital Expenditure minus loans to states.

Ans :

(B) Capital Expenditure plus Grants in Aid for creation of capital assets.
Effective Capital Expenditure is a broader measure of asset-creating expenditure. It is calculated by adding the government's direct Capital Expenditure to the 'Grants in Aid for creation of capital assets', which are funds transferred to states and other agencies specifically for asset creation. This provides a more comprehensive view of the government's capital formation efforts.

NODIA

Oct/Nov 2011

23. According to the 'Effective Capital Expenditure of the Government' table, what was the total Effective Capital Expenditure as per the Budget Estimates for 2022-23?
(A) ₹840396 crore
(B) ₹750246 crore
(C) ₹773348 crore
(D) ₹1067889 crore

Ans :

(D) ₹1067889 crore
The table on 'Effective Capital Expenditure of the Government' clearly shows the total for the financial year 2022-23. In the 'Budget Estimates' column for 2022-23, the value in the 'Total' row is ₹1067889 crore. This figure is the sum of the budgeted Capital Expenditure and Grants in Aid for creation of capital assets.

May/June 2010

24. A footnote in the 'Effective Capital Expenditure' table specifies a special inclusion in the Revised Estimates for 2021-22. What was this inclusion related to?
(A) Capital infusion to AIAHL/AI for settling past liabilities.
(B) Increased allocation for the MGNREGS rural employment scheme.
(C) Additional grants for infrastructure projects in Union Territories.
(D) Prepayment of high-interest external debt from multilateral agencies.

Ans :

(A) Capital infusion to AIAHL/AI for settling past liabilities.
A specific footnote clarifies the Revised Estimates (RE) for Capital Expenditure in 2021-22. It states

that the figure includes a capital infusion and loans amounting to ₹51971 crore to AIAHL/AI (Air India Assets Holding Limited/Air India) for the settlement of past guaranteed and sundry liabilities, which were not backed by assets.

Oct/Nov 2024

25. As per the classification in the chapter, Plan Expenditure is the sum of which two components?
(A) Central Plan and State Plan expenditures.
(B) Non-Plan Expenditure and Deficit Financing.
(C) Revenue Expenditure and Capital Expenditure under the plan head.
(D) Economic Services and Social Services expenditures.

Ans :

(C) Revenue Expenditure and Capital Expenditure under the plan head.
The chapter defines Plan Expenditure as the aggregate of expenditure on programs and schemes detailed in the central plan. This total is composed of both Revenue Expenditure (for recurring costs like salaries under plan schemes) and Capital Expenditure (for asset creation under plan schemes), making it a comprehensive measure of developmental spending as per that classification.

May/June 2017

26. The total expenditure of the government is calculated by the summation of which two major expenditure categories mentioned in the chapter?
(A) Total Non-Plan Expenditure and Total Plan Expenditure
(B) Revenue Expenditure and Capital Expenditure
(C) Developmental and Non-Developmental Expenditure
(D) Centre's Expenditure and Transfers

Ans :

(A) Total Non-Plan Expenditure and Total Plan Expenditure
Following the classification system presented in the chapter, the Total Expenditure of the government is derived by adding the Total Non-Plan Expenditure and the Total Plan Expenditure. Non-Plan expenditure typically includes committed expenses like interest and salaries, while Plan expenditure was traditionally for new schemes and projects, though this distinction has since been abolished.

Oct/Nov 2005

27. How is 'Revenue Deficit' defined in the context of the Union Budget?
(A) The excess of total expenditure over total receipts.
(B) The excess of capital expenditure over capital receipts.
(C) The difference between fiscal deficit and interest payments.
(D) The excess of revenue expenditure over revenue receipts.

Ans :

(D) The excess of revenue expenditure over revenue receipts.
Revenue Deficit is a specific fiscal indicator that measures the shortfall in the government's recurring income relative to its recurring expenditure. It is calculated as the excess of total revenue expenditure (spending that does not create assets) over total revenue receipts (income that does not reduce assets or create liabilities), indicating a deficit on the current account.

May/June 2020

28. What is the formula for calculating 'Effective Revenue Deficit'?
(A) Revenue Deficit minus Interest Payments.
(B) Revenue Deficit minus Grants in Aid for creation of capital assets.
(C) Revenue Deficit plus Grants for creation of capital assets.
(D) Fiscal Deficit minus Revenue Deficit.

Ans :

(B) Revenue Deficit minus Grants in Aid for creation of capital assets.
Effective Revenue Deficit is a refined metric that adjusts the Revenue Deficit. It is calculated by subtracting 'Grants in Aid for creation of capital assets' from the Revenue Deficit. The rationale is that even though these grants are classified as revenue expenditure, they are used by recipient entities to create durable assets, thus having a capital nature.

Oct/Nov 2015

29. The Fiscal Deficit of the government represents the excess of total expenditure over the sum of revenue receipts and which other component?
(A) Debt creating capital receipts
(B) Total capital receipts
(C) Non-debt receipts

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(D) Drawdown of cash balance

Ans :

(C) Non-debt receipts
Fiscal Deficit is defined as the excess of total expenditure (including loans, net of recoveries) over the sum of revenue receipts (including external grants) and non-debt receipts. Non-debt receipts primarily include recoveries of loans and disinvestment proceeds. Essentially, the fiscal deficit indicates the total borrowing requirement of the government from all sources during a financial year.

May/June 2013

30. Which of the following is an alternative and simpler way to define Fiscal Deficit?
(A) Total Expenditure – Total Revenue
(B) Revenue Expenditure – Revenue Receipts
(C) Total Receipts – Total Expenditure
(D) Total Expenditure - Total Revenue (Excluding the borrowings)

Ans :

(D) Total Expenditure - Total Revenue (Excluding the borrowings)
A more direct definition of Fiscal Deficit is the difference between the government's Total Expenditure and its Total Revenue, with the crucial exclusion of borrowings. Since borrowings (debt receipts) are used to finance the gap, excluding them from the revenue side reveals the exact size of the shortfall that needs to be covered by borrowing.

Oct/Nov 2008

31. What is the 'Primary Deficit'?
(A) The difference between Fiscal Deficit and Interest Payments.
(B) The difference between Revenue Deficit and Interest Payments.
(C) The difference between Fiscal Deficit and Revenue Deficit.
(D) The difference between Total Expenditure and Total Receipts.

Ans :

(A) The difference between Fiscal Deficit and Interest Payments.
The Primary Deficit is a fiscal indicator that shows the borrowing requirement of the government, exclusive of interest payments on past debts. It is calculated by subtracting the interest payments for the year from the fiscal deficit of the same year (). A lower primary deficit indicates progress in fiscal consolidation, independent of past debt obligations.

May/June 2006

32. The Net RBI credit to the Central Government is the sum of the increase in the Reserve Bank's holding of Treasury Bills, GoI dated securities, rupee coins, and which other item?
(A) The country's total holdings of Foreign Exchange Reserves.
(B) Loans and Advances from the RBI to the Centre.
(C) The official Gold Reserves held by the central bank.
(D) The nation's allocation of Special Drawing Rights (SDR) from the IMF.

Ans :

(B) Loans and Advances from the RBI to the Centre.
The Net RBI credit to the Central Government is a measure of direct financing provided by the central bank. It is the sum of the increase in RBI's holdings of i) T-Bills, ii) GoI dated securities, iii) rupee coins, and iv) Loans and Advances from the RBI to the Central Government, adjusted for changes in the Centre's cash balances.

Oct/Nov 2006

33. Based on the 'Budget at a Glance' table, what was the value of the Revenue Deficit for 2020-21 (Actuals)?
(A) ₹1633920 crore
(B) ₹1449599 crore
(C) ₹1818291 crore
(D) ₹1140576 crore

Ans :

(B) ₹1449599 crore
The 'Budget at a Glance' table presents key fiscal indicators. For the financial year 2020-2021, in the 'Actuals' column, the row for 'Revenue Deficit' (item 15) shows the value as ₹1449599 crore. This figure is derived by subtracting the Revenue Receipts (item 1) from the expenditure 'On Revenue Account' (item 10) for that year.

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May/June 2008

34. According to the 'Budget at a Glance' table, what was the projected Fiscal Deficit as a percentage of GDP for the budget year 2022-23?

(C) P-2, Q-3, R-4, S-1
Pensions (2) are a classic example of Revenue Expenditure (P). Defence Capital Outlay (3) is a Capital Expenditure (Q). Grants to State Governments (4) are treated as revenue transfers (R). Loans to Public Enterprises (1) are a form of capital transfer, creating an asset (S). Note that while the chapter groups "Loans to State" under Capital Expenditure, it's a form of capital transfer.

Oct/Nov 2013

43. Arrange the following receipts in the order of their appearance in the 'Receipts' table structure:
1. Disinvestment Receipts
2. Corporation Tax
3. Interest receipts
4. Market Borrowings

(A) 2, 1, 3, 4
(B) 3, 2, 4, 1
(C) 1, 2, 3, 4
(D) 2, 3, 1, 4

Ans :

(D) 2, 3, 1, 4
The 'Receipts' table structure begins with Revenue Receipts, starting with Tax Revenue (Corporation Tax). It is followed by Non-Tax Revenue (Interest receipts). After Revenue Receipts, it lists Capital Receipts, starting with Non-debt Receipts (Disinvestment Receipts) and then Debt Receipts (Market Borrowings). The correct sequence is therefore 2, 3, 1, 4, reflecting the budget statement's logical flow.

May/June 2007

44. Consider the following two statements:
Statement I: The Union Budget is presented by the Union Finance Minister in Parliament.
Statement II: The Rail Budget is now presented separately from the Union Budget.
Which of the following is correct?
(A) Statement I is correct, but Statement II is incorrect.
(B) Statement I is incorrect, but Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Ans :

(A) Statement I is correct, but Statement II is incorrect.
The first statement is factually correct; the Union Finance Minister is responsible for presenting the annual budget in Parliament. The second statement is incorrect because, from the year 2017, the practice of presenting a separate Rail Budget was discontinued, and it was merged with the main Union Budget.

Oct/Nov 2021

45. From the 'Receipts' table, the actual Gross Tax Revenue for 2020-21 was ₹2027104 crore. What component within GST contributed the most to this figure?
(A) IGST
(B) CGST
(C) GST Compensation Cess
(D) The table does not provide this breakdown.

Ans :

(B) CGST
The 'Receipts' table for 2020-21 (Actuals) provides a breakdown of GST components. The value for CGST is ₹456334 crore, IGST is ₹7251 crore, and GST Compensation Cess is ₹85192 crore. Comparing these figures, CGST was clearly the largest contributor among the specified GST components for that particular year.

May/June 2015

46. Which of the following is NOT a component of 'Debt Receipts' as listed in the chapter?
(A) Securities against Small Savings
(B) State Provident Funds
(C) Disinvestment Receipts
(D) External Debt

Ans :

(C) Disinvestment Receipts
Disinvestment Receipts, which are funds generated from selling government equity in public enterprises, are classified as 'Non-debt Receipts' under Capital Receipts. This is because they reduce the government's assets but do not create a future repayment liability. The other options are all forms of borrowing and are correctly classified as 'Debt Receipts'.

Oct/Nov 2009

47. Which of the following expenditures is NOT listed under 'Revenue Expenditure' in the Non-Plan Expenditure section?
(A) Police
(B) Defence

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Oct/Nov 2023

39. Consider the following statements about deficit concepts:

1. Primary Deficit is always higher than Fiscal Deficit.
2. Revenue Deficit signals that the government is borrowing to finance consumption expenditure.
3. Effective Revenue Deficit is calculated by adding capital grants to Revenue Deficit.

Which of the above statements is/are correct?

(A) 1 only
(B) 2 only
(C) 1 and 3 only
(D) 2 and 3 only

Ans :

(B) 2 only
The second statement is correct, as a revenue deficit means recurring expenses exceed recurring income, implying borrowing is used for consumption. The first statement is incorrect; Primary Deficit () is always lower than Fiscal Deficit as interest payments are positive. The third statement is incorrect; Effective Revenue Deficit is calculated by subtracting capital grants from Revenue Deficit.

May/June 2012

40. Assertion (A): Fiscal Deficit represents the total borrowing requirements of the government.
Reason (R): Fiscal Deficit is the excess of total expenditure over the sum of revenue receipts and non-debt creating capital receipts.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that the fiscal deficit represents total borrowing is correct. The reason provides the precise technical definition of how the fiscal deficit is calculated. Since this calculation method directly results in the total amount that the government needs to borrow to meet its expenditure gap, the reason correctly explains the assertion.

Oct/Nov 2018

41. Match List-I with List-II and select the correct answer.

	List-I (Receipt Type)		**List-II (Example)**
P.	Tax Revenue	1.	Disinvestment Receipts
Q.	Non-Tax Revenue	2.	Customs Duty
R.	Non-debt Capital Receipt	3.	External Debt
S.	Debt Receipt	4.	Dividends and Profits

Code:
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-1, S-2

Ans :

(A) P-2, Q-4, R-1, S-3
The correct matching is based on budget classification. Customs Duty (2) is a form of Tax Revenue (P). Dividends and Profits (4) are Non-Tax Revenue (Q). Disinvestment Receipts (1) are Non-debt Capital Receipts (R). External Debt (3) is a form of Debt Receipt (S). Therefore, the correct code is P-2, Q-4, R-1, S-3.

May/June 2016

42. Match List-I with List-II regarding government expenditure.

	List-I (Expenditure Type)		**List-II (Example)**
P.	Revenue Expenditure	1.	Loans to Public Enterprises
Q.	Capital Expenditure	2.	Pensions
R.	Transfer to States (Revenue)	3.	Defence (Capital Outlay)
S.	Transfer to States (Capital)	4.	Grants to State Governments

Code:
(A) P-1, Q-3, R-2, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-4, Q-1, R-2, S-3

Ans :

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May/June 2019

52. A government official states that the 'Borrowings and Other Liabilities' for 2020-21 were ₹1818291 crore. Based on the 'Budget at a Glance' table, this figure is identical to which key deficit indicator for that year?
(A) Revenue Deficit
(B) Primary Deficit
(C) Fiscal Deficit
(D) Effective Revenue Deficit

Ans :

(C) Fiscal Deficit
The Fiscal Deficit represents the total borrowing requirement of the government. In the 'Budget at a Glance' table for 2020-21 (Actuals), the value for 'Fiscal Deficit' (item 17) is ₹1818291 crore. This is exactly equal to the value for 'Borrowings and Other Liabilities' (item 7), confirming that the fiscal deficit is financed by borrowings.

Oct/Nov 2014

53. The 'Let Us Sum Up' section provides a formula for Total Expenditure. What is this formula?
(A) Revenue Expenditure + Capital Expenditure
(B) Centre's Expenditure + Transfers to States
(C) Economic Services + Social Services + General Services
(D) Total Non-Plan Expenditure + Total Plan Expenditure

Ans :

(D) Total Non-Plan Expenditure + Total Plan Expenditure
The 'Let Us Sum Up' section at the end of the chapter explicitly summarizes the key formulas. For Total Expenditure, it provides the equation: Total Expenditure = Total Non-Plan Expenditure + Total Plan Expenditure. This reflects the classification framework used throughout the chapter for analyzing government spending, even though this classification is now outdated in practice.

May/June 2005

54. Which of the following items would be subtracted from Gross Tax Revenue to arrive at Net Tax Revenue?
1. States' Share
2. NCCD transferred to National Calamity Contingency Fund
3. External Grants
4. Interest Payments

(A) 1 and 3 only
(B) 2 and 4 only
(C) 1 and 2 only
(D) 1, 2, and 4

Ans :

(C) 1 and 2 only
The formula for Net Tax Revenue is explicitly defined as Gross Tax Revenue minus the amount transferred to the National Calamity Contingency Fund (NCCD) and minus the States' Share of central taxes. External Grants are a non-tax revenue item, and Interest Payments are a revenue expenditure item, so they are not part of this calculation.

Oct/Nov 2022

55. What does a Primary Deficit of zero imply?
(A) The government has fully paid off all outstanding public debt.
(B) Current borrowings are used only for interest payments on past debt.
(C) The government's total receipts perfectly match its total expenditure for the year.
(D) The government's revenue deficit has been eliminated, reaching a value of zero.

Ans :

(B) Current borrowings are used only for interest payments on past debt.
Primary Deficit is Fiscal Deficit - Interest Payments. If the Primary Deficit is zero, it means the Fiscal Deficit is exactly equal to the Interest Payments. This indicates that the entire borrowing (Fiscal Deficit) for the current year is being used solely to service the interest on accumulated past debt, with no borrowing for other expenses.

May/June 2018

56. Identify the incorrect pair from the following.
(A) Interest Receipts - Non-Tax Revenue
(B) Union Excise Duties - Tax Revenue
(C) Customs - Tax Revenue
(D) Recoveries of Loans - Debt Receipt

Ans :

(D) Recoveries of Loans - Debt Receipt
Recoveries of Loans are classified as Non-debt Capital Receipts. This is because they are an inflow of funds that reduces the government's financial assets (loans receivable) but does not create any new debt or liability. All other pairs

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(C) Pensions
(D) Defence (Capital Outlay)

Ans :

(D) Defence (Capital Outlay)
The chapter lists 'Defence' under Revenue Expenditure, which pertains to recurring costs like salaries and maintenance. However, it separately lists 'Defence' under Capital Expenditure, which refers to the acquisition of new assets and equipment (Capital Outlay). Therefore, 'Defence (Capital Outlay)' is a capital, not revenue, expenditure, making it the correct exception.

May/June 2024

48. Total Receipts of the government are calculated as the sum of Total Revenue Receipts, Capital Receipts, and which other component?
(A) Drawdown of Cash Balance
(B) Net RBI Credit
(C) External Grants
(D) Disinvestment Proceeds

Ans :

(A) Drawdown of Cash Balance
The comprehensive measure of Total Receipts available to the government for financing its expenditure includes all its income and borrowing, plus any amount drawn from its accumulated cash reserves. The formula is explicitly stated as: .

Oct/Nov 2017

49. According to the 'Budget at a Glance' table, the Primary Deficit as a percentage of GDP for 2020-21 (Actuals) was:
(A) 9.2%
(B) 5.8%
(C) 6.8%
(D) 3.1%

Ans :

(B) 5.8%
The 'Budget at a Glance' table provides deficit figures as a percentage of GDP in parentheses. For the financial year 2020-21, under the 'Actuals' column, the row for 'Primary Deficit' (item 18) shows the figure (5.8). This indicates that the Primary Deficit for that year was 5.8% of the Gross Domestic Product.

May/June 2011

50. Consider the following items from the Union Budget:
1. Corporation Tax
2. Disinvestment Receipts
3. Interest Receipts
4. Market Borrowings

Which of these are classified as Capital Receipts?
(A) 1 and 3 only
(B) 2 and 4 only
(C) 1, 2 and 4 only
(D) All of the above

Ans :

(B) 2 and 4 only
Capital Receipts are composed of non-debt and debt receipts. Disinvestment Receipts (2) are non-debt capital receipts, and Market Borrowings (4) are debt receipts. Corporation Tax (1) is a Tax Revenue Receipt, and Interest Receipts (3) are a Non-Tax Revenue Receipt. Therefore, only items 2 and 4 fall under the category of Capital Receipts.

Oct/Nov 2025

51. Consider the following statements:
1. Grants for creation of capital assets are part of Revenue Expenditure.
2. Loans to Public Enterprises are part of Revenue Expenditure.
3. Subsidies on petroleum are part of Capital Expenditure.

Which of the statements given above is/are correct?
(A) 1 only
(B) 2 only
(C) 1 and 3 only
(D) None of the above

Ans :

(A) 1 only
The first statement is correct; from the central government's accounting perspective, grants are classified as revenue expenditure, even if used for asset creation by the recipient. The second statement is incorrect; loans create financial assets and are thus Capital Expenditure. The third statement is incorrect; subsidies are recurring payments and are a form of Revenue Expenditure.

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(A) 6.4%
(B) 6.9%
(C) 3.8%
(D) 2.8%

Ans :

(A) 6.4%
The 'Budget at a Glance' table provides deficit figures both in absolute terms and as a percentage of GDP. For the financial year 2022-23, under the 'Budget Estimates' column, the row for 'Fiscal Deficit' (item 17) shows the value (6.4) in parenthesis. This indicates a projected Fiscal Deficit of 6.4% of the Gross Domestic Product.

Oct/Nov 2012

35. An economist is analyzing the government's borrowing needs for 2022-23. Based on the 'Budget at a Glance' table, if the Fiscal Deficit is ₹1661196 crore and Interest Payments are ₹940651 crore, what is the Primary Deficit?
(A) ₹2501847 crore
(B) ₹990241 crore
(C) ₹720545 crore
(D) ₹697111 crore

Ans :

(C) ₹720545 crore
The Primary Deficit is calculated as the Fiscal Deficit minus Interest Payments. Using the provided budget estimates for 2022-23, the calculation is: . This results in a Primary Deficit of ₹720545 crore, which matches the figure given in the table for that year.

May/June 2023

36. For the financial year 2021-22 (Revised Estimates), the 'Budget at a Glance' table shows a Revenue Deficit of ₹1088352 crore and Grants in Aid for creation of capital assets of ₹237685 crore. What is the Effective Revenue Deficit for that period?
(A) ₹1326037 crore
(B) ₹1591039 crore
(C) ₹921464 crore
(D) ₹850667 crore

Ans :

(D) ₹850667 crore
Effective Revenue Deficit is calculated by subtracting Grants in Aid for the creation of capital assets from the Revenue Deficit. Using the Revised Estimates for 2021-22, the calculation is: . This results in an Effective Revenue Deficit of ₹850667 crore, which is the figure shown in the table.

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Oct/Nov 2020

37. Which of the following is incorrect regarding the classification of government receipts?
(A) Corporation tax is a form of Tax Revenue.
(B) Recoveries of loans are a form of Non-debt Capital Receipts.
(C) Market borrowings (G-sec + T Bills) are a form of Non-debt Receipts.
(D) Interest receipts are a form of Non-Tax Revenue.

Ans :

(C) Market borrowings (G-sec + T Bills) are a form of Non-debt Receipts.
Market borrowings, which include the issuance of Government Securities (G-sec) and Treasury Bills (T-Bills), create a liability for the government to repay the principal and interest. Therefore, they are correctly classified as Debt Receipts, not Non-debt Receipts. The other statements correctly classify Corporation tax, loan recoveries, and interest receipts according to budget conventions.

May/June 2022

38. Identify the incorrect statement concerning the expenditure categories of the Union Government.
(A) Pensions are classified as Revenue Expenditure.
(B) Grants to State Governments are always classified as Capital Expenditure.
(C) Loans to Public Enterprises are classified as Capital Expenditure.
(D) Subsidies on food and fertiliser are classified as Revenue Expenditure.

Ans :

(B) Grants to State Governments are always classified as Capital Expenditure.
Grants given to State Governments are generally classified as Revenue Expenditure for the central government. However, a specific portion of these grants, namely 'Grants in Aid for creation of capital assets', is intended for asset creation. While this portion contributes to 'Effective Capital Expenditure', the grants themselves are booked under the revenue account of the Centre.

correctly match the item with its budgetary classification.

Oct/Nov 2016

57. As per the 'Expenditure of Government of India' table, which of the following had the highest budgeted allocation for 2022-23?
(A) Central Sector Schemes/Projects
(B) Establishment Expenditure
(C) Centrally Sponsored Schemes
(D) Finance Commission Grants

Ans :

(A) Central Sector Schemes/Projects
Reviewing the 'Budget Estimates' column for 2022-23 in the expenditure table, the allocations are: Establishment Expenditure (₹692214 crore), Central Sector Schemes/Projects (₹1181085 crore), Centrally Sponsored Schemes (₹442781 crore), and Finance Commission Grants (₹192108 crore). Clearly, Central Sector Schemes/Projects had the highest allocation.

May/June 2021

58. The 'Budget at a Glance' table indicates that the Effective Revenue Deficit as a percentage of GDP for the Revised Estimates of 2021-22 was:
(A) 4.7%
(B) 4.1%
(C) 3.7%
(D) 2.6%

Ans :

(C) 3.7%
In the 'Budget at a Glance' table, under the 'Revised Estimates 2021-2022' column, the row for 'Effective Revenue Deficit' (item 16) has the value (3.7) in parenthesis. This figure represents the Effective Revenue Deficit as a percentage of the Gross Domestic Product for that period.

Oct/Nov 2010

59. Which of the following statements is correct based on the 'Receipts' table data?
(A) For 2022-23, budgeted receipts from Corporation Tax were ₹720000 crore.
(B) For 2022-23, budgeted receipts from Corporation Tax were lower than from Income Tax.
(C) For 2022-23, budgeted receipts from GST were lower than from Corporation Tax.
(D) Actual Disinvestment Receipts in 2020-21 were higher than Market Borrowings.

Ans :

(A) For 2022-23, budgeted receipts from Corporation Tax were ₹720000 crore.
The statement that budgeted receipts from Corporation Tax were ₹720000 crore for 2022-23 is a direct fact from the budget table. The statement that budgeted Corporation Tax was lower than Income Tax is incorrect; budgeted Corporation Tax (₹720000 crore) was higher than Income Tax (₹700000 crore). The statement that budgeted GST receipts were lower than from Corporation Tax is incorrect; GST receipts (₹780000 crore) were higher. The statement that actual Disinvestment Receipts in 2020-21 were higher than Market Borrowings is incorrect; Disinvestment Receipts (₹37897 crore) were significantly lower than Market Borrowings (₹1239737 crore).

May/June 2014

60. A deficit that arises when total expenditure, excluding interest payments, is more than the total non-debt creating receipts is known as:
(A) Revenue Deficit
(B) Fiscal Deficit
(C) Budgetary Deficit
(D) Primary Deficit

Ans :

(D) Primary Deficit
The primary deficit is defined as the fiscal deficit minus interest payments. An alternative way to view this is the gap between the current year's expenditure (excluding interest obligations from past debt) and the current year's non-debt creating receipts. It shows the borrowing required to finance spending other than interest payments on past loans.

Oct/Nov 2007

61. Consider the following components of the budget:
1. Subsidies
2. Loans to State Governments
3. Pensions
4. Defence capital outlay

Which of the above are classified as Revenue Expenditure?
(A) 1 and 2 only
(B) 1 and 3 only
(C) 2 and 4 only
(D) 1, 3 and 4 only

Ans :

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(B) 1 and 3 only
Subsidies (1) and Pensions (3) are recurring expenditures that do not create any assets for the government, hence they are classified as Revenue Expenditure. Loans to State Governments (2) and Defence capital outlay (4) both involve the creation of financial or physical assets, respectively, and are therefore classified as Capital Expenditure.

May/June 2025

62. Assertion (A): A high Revenue Deficit is a cause for concern as it indicates the government is dissaving.
Reason (R): Revenue Deficit is the excess of revenue expenditure over revenue receipts, implying the government is borrowing to finance its consumption expenditure.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that a high revenue deficit is concerning is correct because it means the government's day-to-day running expenses are more than its current income, which is a form of dissaving. The reason correctly defines revenue deficit and explains that this gap must be funded by borrowing, which is then used for consumption rather than investment. Thus, the reason correctly explains the assertion.

Oct/Nov 2019

63. Which of the following is the most appropriate description of 'Disinvestment Receipts'?
(A) Receipts from the sale of government securities in the market.
(B) Receipts from the recovery of loans given to public enterprises.
(C) Receipts from the sale of the government's equity in public sector undertakings.
(D) Receipts from external grants for specific projects.

Ans :

(C) Receipts from the sale of the government's equity in public sector undertakings.
Disinvestment Receipts are a specific type of non-debt capital receipt. They are generated when the government sells its shareholding (equity) in Central Public Sector Enterprises (CPSEs) or other entities to the public or other institutions. This action reduces the government's ownership stake but does not create a debt liability for the government.

May/June 2009

64. The note in the 'Budget at a Glance' table projects a GDP growth of 11.1% for 2022-23 over the estimated GDP for 2021-22. What was the estimated GDP for 2021-22 (RE)?
(A) ₹25800000 crore
(B) ₹1506812 crore
(C) ₹3483236 crore
(D) ₹23214703 crore

Ans :

(D) ₹23214703 crore
Note (i) at the bottom of the 'Budget at a Glance' table provides the specific GDP figures used for calculating the deficit percentages. It explicitly states that the GDP for BE 2022-23 has been projected assuming 11.1% growth over the estimated GDP of ₹23214703 crore for 2021-2022 (RE).

Oct/Nov 2011

65. Based on the classification provided, which of the following is an exception to Capital Receipts?
(A) Other Non-Tax Revenue
(B) Market Borrowings
(C) Disinvestment Receipts
(D) State Provident Funds

Ans :

(A) Other Non-Tax Revenue
Other Non-Tax Revenue is a component of Revenue Receipts, not Capital Receipts. It includes income from various government services that are not taxes or grants. In contrast, Market Borrowings, Disinvestment Receipts, and State Provident Funds are all correctly classified under Capital Receipts (either as debt or non-debt creating).

May/June 2010

66. Identify the correct statement regarding the data in the 'Budget at a Glance' table.
(A) The Revenue Deficit consistently increased from 2020-21 to the 2022-23 budget estimate.

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(B) The Primary Deficit as a % of GDP was projected to be lower in 2022-23 (BE) than in 2021-22 (RE).
(C) Total Expenditure was budgeted to be lower in 2022-23 compared to the 2021-22 Revised Estimates.
(D) Capital Receipts were projected to be higher than Revenue Receipts in the 2022-23 Budget Estimates.

Ans :

(B) The Primary Deficit as a % of GDP was projected to be lower in 2022-23 (BE) than in 2021-22 (RE).
A review of the 'Budget at a Glance' table shows the Primary Deficit as a percentage of GDP was 3.3% in the Revised Estimates for 2021-22. For the Budget Estimates of 2022-23, this ratio was projected to decrease to 2.8%, indicating an intended improvement in the fiscal position net of interest payments. The statement that the Revenue Deficit consistently increased is incorrect as it decreased. The statement that Total Expenditure was budgeted to be lower is incorrect as it was higher. The statement that Capital Receipts were projected to be higher than Revenue Receipts is also incorrect.

Oct/Nov 2024

67. Which of the following government expenditures would not be included in the calculation of 'Effective Capital Expenditure'?
(A) Expenditure on salaries for government employees.
(B) Expenditure on building a new highway.
(C) Grants to a state for building new schools.
(D) Purchase of new defence equipment.

Ans :

(A) Expenditure on salaries for government employees.
Effective Capital Expenditure is the sum of direct Capital Expenditure and Grants-in-aid for capital asset creation. Expenditure on a new highway and new defence equipment are direct capital expenditures. Grants for building schools are grants for capital asset creation. Salaries are a recurring revenue expenditure and do not create any assets.

May/June 2017

68. Consider the following four statements:
1. Union Excise Duties are a form of Non-Tax Revenue.
2. External Debt is a form of Debt Receipt.
3. Pensions are a form of Capital Expenditure.
4. Recoveries of Loans & Advances are a form of Non-debt Receipt.

How many of the above statements are correct?
(A) One
(B) Two
(C) Three
(D) Four

Ans :

(B) Two
Statement (2) is correct; External Debt is a liability and thus a Debt Receipt. Statement (4) is correct; Recoveries of loans are Non-debt Capital Receipts. Statement (1) is incorrect; Union Excise Duties are Tax Revenue. Statement (3) is incorrect; Pensions are recurring and thus Revenue Expenditure. Therefore, exactly two statements are correct.

Oct/Nov 2005

69. Total Receipts of the government, as per the formula, are the sum of Total Revenue Receipts, Capital Receipts, and Drawdown of Cash Balance. In the 'Receipts' table, this is labeled as:
(A) Grand Total (1+7)
(B) Total Capital Receipts (A+B)
(C) Total Receipts (1a+2+3)
(D) Total Receipts (1+2+3)

Ans :

(D) Total Receipts (1+2+3)
In the 'Receipts' table, item '1a' is Centre's Net Tax Revenue and '2' is Non-Tax Revenue, which sum up to Total Revenue Receipts. Item '3' is Total Capital Receipts. The line item 'Total Receipts (1+2+3)' represents the sum of Total Revenue Receipts and Total Capital Receipts. The drawdown is listed separately and added to this for the final financing figure.

May/June 2020

70. Match the deficit concept (List-I) with its correct formula (List-II).

	List I		List II
P.	Revenue Deficit	1.	Fiscal Deficit – Interest Payments

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The IMF approved a USD 3.9 billion loan, which required pledging 67 tonnes of gold.

May/June 2006

33. The Narasimham Committee-I (1991) recommended a 4-tier hierarchy for the banking structure. What was envisioned for the top of this structure?

(A) A single, large government-owned mega bank to control all banking activities
(B) 3 to 4 large banks, including SBI, to be competitive at an international level
(C) All private sector banks with foreign collaboration to lead innovation
(D) A dozen specialised development financial institutions for specific sectors

Ans :

(B) 3 to 4 large banks, including SBI, to be competitive at an international level
The Narasimham Committee-I (1991) proposed a significant restructuring of the banking system. It recommended a 4-tier hierarchy. At the apex of this structure, the committee suggested the presence of 3 to 4 large, internationally competitive banks, which would include the State Bank of India (SBI), to act as the leaders of the banking system.

Oct/Nov 2017

34. As part of the reforms following the Narasimham Committee-I recommendations, the Statutory Liquidity Ratio (SLR) was progressively reduced from 38.5% in 1991 to what level by 1997?

(A) 25%
(B) 30%
(C) 20%
(D) 15%

Ans :

(A) 25%
The Narasimham Committee-I identified high SLR and CRR as factors that reduced bank profitability and loanable funds. Following its recommendations, the government and RBI initiated a phased reduction. The Statutory Liquidity Ratio (SLR) was brought down in stages from a high of 38.5% in 1991 to a significantly lower level of 25% by 1997.

May/June 2008

35. Following the introduction of Capital Adequacy Norms in April 1992, what was the Capital Adequacy Ratio (CAR) fixed by the RBI, which all public sector banks were required to attain by March 1996?

(A) 4%
(B) 6%
(C) 8%
(D) 10%

Ans :

(C) 8%
To strengthen the financial health and risk management of banks, the RBI implemented prudential norms, including capital adequacy requirements. In April 1992, the RBI mandated a Capital Adequacy Ratio (CAR) of 8%. This ratio of minimum capital to risk-weighted assets had to be achieved by all public sector banks by the deadline of March 1996.

Oct/Nov 2013

36. A new private sector bank was licensed in 1995. It planned to raise capital from foreign sources. According to the policy for new private sector banks during that period, what was the maximum capital contribution allowed from Foreign Institutional Investors (FIIs) and Non-Resident Indians (NRIs) respectively?

(A) 20% from FIIs and 20% from NRIs
(B) 40% from FIIs and 20% from NRIs
(C) 49% from FIIs and 51% from NRIs
(D) 20% from FIIs and 40% from NRIs

Ans :

(D) 20% from FIIs and 40% from NRIs
The liberalisation phase opened up banking to the private sector, leading to the licensing of new banks. To facilitate their capitalization, these new private sector banks were permitted to raise capital from foreign sources. The policy allowed for a capital contribution of up to 20% from Foreign Institutional Investors (FIIs) and up to 40% from Non-Resident Indians (NRIs).

May/June 2015

37. To facilitate the speedy recovery of dues to banks and financial institutions, which Act was passed by the Government of India in 1993?

(A) The Banking Regulation Act, 1949, which provides the framework for banking supervision
(B) The SARFAESI Act, 2002, which empowers banks to enforce security interests
(C) The Recovery of Debts due to Banks and

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CHAPTER 20

Indian Financial System – An Overview

May/June 2016

1. What fundamental economic process is described as essential for the growth of any economy, involving the transfer of wealth from those with savings to entrepreneurs who can invest it?
(A) Wealth distribution
(B) Capital formation
(C) Market regulation
(D) Fiscal consolidation

Ans :

(B) Capital formation
Capital formation is the process where savings from wealth possessors, such as individuals, firms, and governments, are made available to entrepreneurs and businesses for investment. This flow of wealth from surplus units to deficit units is crucial for setting up and operating enterprises, thereby driving economic growth, and is the primary purpose of a financial system.

Oct/Nov 2009

2. Which of the following is a characteristic of an informal financial system?
(A) Lack of regulations and unstructured procedures
(B) High degree of regulation and official transparency
(C) Structured procedures and high transaction costs
(D) Mandatory use of formal financial instruments

Ans :

(A) Lack of regulations and unstructured procedures
The informal financial system is an extension of the social structure, characterized by a lack of formal regulations, unstructured procedures, low transaction costs, and often low default rates within close-knit communities. It includes entities like individual money lenders, local brokers, and chit-fund companies, which operate outside the purview of formal institutional oversight.

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May/June 2023

3. Which of the following entities would NOT be considered a typical component of the informal financial system in India?
(A) Partnership firms of local pawnbrokers
(B) Groups of persons operating as community associations and funds
(C) Scheduled Commercial Banks regulated by the RBI
(D) Individual money lenders who are also local traders

Ans :

(C) Scheduled Commercial Banks regulated by the RBI
The informal financial system is comprised of unregulated entities like money lenders, traders, relatives, pawnbrokers, and chit-fund companies. Scheduled Commercial Banks, on the other hand, are a cornerstone of the formal financial system, which is defined by its organised, institutional, and regulated nature, operating under the strict supervision of regulatory bodies like the RBI.

Oct/Nov 2018

4. What are the three core components that constitute a formal financial system?
(A) Financial institutions, financial regulators, and financial services
(B) Financial markets, financial products, and financial regulators
(C) Financial instruments, financial intermediaries, and financial policies
(D) Financial institutions, financial instruments, and financial markets

Ans :

(D) Financial institutions, financial instruments, and financial markets
The formal financial system is structured around three main pillars. These are financial institutions, which act as intermediaries; financial instruments, which are the products and services traded; and financial markets, which provide the platform for these transactions to occur. Together,

(C) Bank of Calcutta, Bank of India, and Central Bank of India
(D) Bank of Bengal, Bank of Madras, and Bank of Bombay

Ans :

(D) Bank of Bengal, Bank of Madras, and Bank of Bombay
In 1921, a major consolidation in the Indian banking sector occurred with the amalgamation of the three Presidency banks. The Bank of Bengal (originally Bank of Calcutta), the Bank of Madras, and the Bank of Bombay were merged to create the Imperial Bank of India. This entity was later nationalized and transformed into the State Bank of India.

May/June 2018

15. The Imperial Bank of India was converted into which public sector bank on July 1st, 1955?
(A) State Bank of India
(B) Central Bank of India
(C) Bank of India
(D) Reserve Bank of India

Ans :

(A) State Bank of India
Following India's independence, the government pursued a policy of bringing key financial institutions under public ownership. As part of this, the Imperial Bank of India, which was the largest commercial bank at the time, was nationalized and reconstituted as the State Bank of India on July 1, 1955, becoming the country's first Public Sector Bank.

Oct/Nov 2016

16. The establishment of the Reserve Bank of India in 1935 was based on the recommendation of which commission?
(A) Narasimham Committee
(B) Hilton Young Commission
(C) P J Nayak Committee
(D) Sarkaria Commission

Ans :

(B) Hilton Young Commission
The pre-independence era, particularly the 1920s, witnessed significant turbulence in the financial market, highlighting the need for a central banking authority. The establishment of a central bank was spurred by these events, and the Reserve Bank of India was subsequently set up in 1935 based on the specific recommendations of the Hilton Young Commission.

May/June 2014

17. What was the primary objective of initiating a scheme of planned economic development with the First Five-Year Plan in 1951?
(A) To achieve rapid privatization of all state-owned industries
(B) To promote economic growth with social justice
(C) To exclusively promote the private sector's unhindered growth
(D) To dismantle the public sector and reduce state intervention

Ans :

(B) To promote economic growth with social justice
In the post-independence phase, India's development strategy was guided by the Directive Principles of State Policy, which enshrined the goal of economic growth with social justice. The launch of the First Five-Year Plan in 1951 initiated a scheme of planned economic development, adopting a mixed economy model where public and private sectors played complementary roles.

Oct/Nov 2007

18. In what year was the Reserve Bank of India (RBI) nationalised, marking a significant step in the post-independence development of the financial system?
(A) 1948
(B) 1935
(C) 1947
(D) 1955

Ans :

(A) 1948
The post-independence phase (1947-1991) began with major structural changes to align the financial system with national development goals. A key initial step was the nationalisation of the central bank. The Reserve Bank of India, which was established as a private entity in 1935, was brought under government ownership and control in the year 1948.

May/June 2025

19. The Life Insurance Corporation of India (LIC) was formed on 1st September 1956 through which process?

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Ans :

(C) To facilitate the trading of financial assets at prices determined by demand and supply
A financial market is a mechanism that allows buyers and sellers to trade financial assets such as securities, commodities, and currencies. Its fundamental role is to facilitate these exchanges efficiently, at low transaction costs, and at prices that are determined by the market forces of demand and supply, thereby enabling capital allocation in the economy.

Oct/Nov 2006

10. Which of the following is NOT one of the four major segments of the financial market in India?
(A) Real estate market
(B) Money market
(C) Capital market
(D) Foreign exchange (forex) market

Ans :

(A) Real estate market
The Indian financial market is broadly segmented into four major components. These are the money market for short-term borrowing and lending, the capital market for long-term funds, the foreign exchange (forex) market for currency trading, and the insurance market. The real estate market, while economically significant, is considered a market for physical assets, not financial assets.

May/June 2021

11. According to historical records, which was the first commercial bank to be set up in India, and in what year?
(A) Bank of Bengal, 1809
(B) Punjab National Bank, 1874
(C) Imperial Bank of India, 1921
(D) Bank of Hindustan, 1770

Ans :

(D) Bank of Hindustan, 1770
The formal Indian financial system began with the establishment of the first commercial bank, the Bank of Hindustan, in Calcutta in the year 1770. Although this bank later discontinued its services in 1832, its founding marks the starting point of modern banking in India, preceding other major banking institutions that were established later.

Oct/Nov 2010

12. Which was the first insurance company established in India in 1906, a company that continues to be in existence?
(A) Life Insurance Corporation of India, formed via nationalisation in 1956
(B) National Insurance Company, founded as an independent entity in 1906
(C) General Insurance Corporation of India, established by the government in 1972
(D) The New India Assurance Co. Ltd., founded by the Tata Group in 1919

Ans :

(B) National Insurance Company, founded as an independent entity in 1906
The history of the Indian insurance sector marks a significant milestone with the establishment of the National Insurance Company in the year 1906. This was the first insurance company to be set up in India. Notably, this company has continued its operations through various phases of the financial system's development and is still in existence today.

May/June 2005

13. Which ancient Indian text, dating back to the 4th century BC, contains references to creditors and lenders, indicating early forms of financial activities?
(A) Manusmriti
(B) Vedas
(C) Kautilya's Arthashastra
(D) Upanishads

Ans :

(C) Kautilya's Arthashastra
The history of banking and financial transactions in India can be traced back to ancient times. Specifically, Kautilya's Arthashastra, a treatise from the 4th century BC, provides early evidence of financial practices by including references to creditors and lenders. This indicates the existence of borrowing and lending activities long before the establishment of formal banking structures.

Oct/Nov 2022

14. The Imperial Bank of India was formed in 1921 through the merger of which three banks?
(A) Bank of Hindustan, General Bank of India, and Oudh Commercial Bank
(B) Punjab National Bank, Allahabad Bank, and Bank of India

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they facilitate the efficient transfer of funds from savers to investors in a modern economy.

May/June 2007

5. Which of the following is an example of a Non-Banking Institution or Non-Depository Institution?
(A) Commercial Banks
(B) Credit Unions
(C) Insurance Companies
(D) Cooperative Banks

Ans :

(C) Insurance Companies
Non-Banking or Non-Depository Institutions are financial institutions that do not accept monetary deposits from the public in the same way as banks. Instead, they sell financial products to their customers. Examples include insurance companies, mutual funds, and brokerage firms. In contrast, depository institutions like banks and credit unions primarily collect deposits and lend money.

Oct/Nov 2025

6. Based on their function, institutions like the Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA), and Securities and Exchange Board of India (SEBI) are classified as which type of financial institution?
(A) Intermediates
(B) Regulatory
(C) Non-Intermediates
(D) Depository

Ans :

(B) Regulatory
Financial institutions can be classified based on their primary function. Institutions such as RBI, IRDA, and SEBI are categorized as regulatory bodies. Their main role is to regulate the financial markets and the entities operating within them to ensure stability, transparency, and fairness, rather than providing direct financial assistance or accepting deposits from the public.

May/June 2012

7. Institutions like NABARD and SIDBI, which provide financial aid primarily to corporate customers or specific sectors, fall under which classification of financial institutions?
(A) Regulatory institutions that oversee sector-specific compliance
(B) Intermediary institutions that accept public retail deposits
(C) Depository institutions that offer savings accounts to individuals
(D) Non-Intermediary institutions that offer specialized financial assistance

Ans :

(D) Non-Intermediary institutions that offer specialized financial assistance
Non-Intermediaries are specialized financial institutions that provide financial assistance and support to specific sectors or corporate customers, rather than the general public. NABARD (National Bank for Agriculture and Rural Development) and SIDBI (Small Industries Development Bank of India) fit this description as they channel funds for agricultural, rural, and small-scale industrial development respectively.

Oct/Nov 2014

8. In the context of a financial institution's balance sheet, which of the following is considered a financial instrument on the liabilities side?
(A) Deposits accepted from customers
(B) Loans and advances issued to borrowers
(C) Investments in government securities
(D) Placements and lending to other banks

Ans :

(A) Deposits accepted from customers
A financial institution's balance sheet has both an asset and a liability side. Financial instruments on the asset side represent uses of funds, such as loans, advances, and investments. Instruments on the liabilities side represent sources of funds. Deposits accepted from customers are a primary liability for a bank, representing money owed to depositors.

May/June 2019

9. What is the primary function of a financial market in an economy?
(A) To regulate financial institutions and ensure their strict compliance with national laws
(B) To create and issue new primary financial instruments like corporate stocks and bonds
(C) To facilitate the trading of financial assets at prices determined by demand and supply
(D) To provide federal deposit insurance to the customers of various commercial banks

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(A) The merger of three large private insurance firms into a single entity
(B) The establishment of a new government company by an act of Parliament
(C) The nationalisation and amalgamation of 245 private insurance companies
(D) The conversion of a department within the Reserve Bank of India

Ans :

(C) The nationalisation and amalgamation of 245 private insurance companies
As part of the post-independence socialist-oriented economic policy, the government moved to consolidate the life insurance sector. On September 1, 1956, a total of 245 private insurance companies, both Indian and foreign, were nationalised and merged into a single entity. This led to the formation of the state-owned Life Insurance Corporation of India (LIC).

Oct/Nov 2019

20. What was the minimum deposit threshold for the 14 private banks that were nationalised on 19th July 1969?
(A) Deposits over Rs 25 crores
(B) Deposits over Rs 100 crores
(C) Deposits over Rs 200 crores
(D) Deposits over Rs 50 crores

Ans :

(D) Deposits over Rs 50 crores
In a major move to exert social control over the banking sector and direct credit towards priority sectors, the Government of India nationalised the 14 largest private banks on July 19, 1969. The criterion for this first round of nationalisation was that each of these banks had aggregate deposits of more than Rs 50 crores.

May/June 2009

21. On 16th April 1980, a second round of nationalisation occurred. What was the minimum deposit criterion for the 6 banks nationalised on this date?
(A) Deposits exceeding Rs 50 crores
(B) Deposits exceeding Rs 100 crores
(C) Deposits exceeding Rs 200 crores
(D) Deposits exceeding Rs 150 crores

Ans :

(C) Deposits exceeding Rs 200 crores
Following the first round of nationalisation in 1969, the socialised banking sector was further expanded in 1980. On April 16, 1980, the government nationalised six more private banks. The eligibility criterion for this second phase was stricter, targeting banks with deposits exceeding the threshold of Rs 200 crores, as compared to the Rs 50 crore limit in 1969.

Oct/Nov 2011

22. Based on Figure 20.2, which of the following banks was nationalised in 1969?
(A) Andhra Bank
(B) Canara Bank
(C) Vijaya Bank
(D) Corporation Bank

Ans :

(B) Canara Bank
The provided table clearly lists the banks that were nationalised in two separate phases, 1969 and 1980. By examining the column titled "1969", it is evident that Canara Bank is listed as one of the 14 banks nationalised in that year. Andhra Bank, Vijaya Bank, and Corporation Bank are all listed under the "1980" column.

May/June 2010

23. The General Insurance Corporation (GIC) was set up in 1972 as a result of the nationalisation of how many private general insurance companies?
(A) 245
(B) 14
(C) 4
(D) 55

Ans :

(D) 55
Following the nationalisation of life insurance, the government turned its attention to the general insurance sector. In 1972, the General Insurance Corporation (GIC) was established. This was achieved through the nationalisation of 55 private general insurance companies. Subsequently, four public sector general insurance subsidiary companies were formed under GIC, namely National, Oriental, New India, and United India.

Oct/Nov 2024

24. What was the primary objective behind the establishment of Regional Rural Banks (RRBs) in 1975?
(A) To serve the rural populace and promote

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Q.	Fiscal Deficit	2.	Revenue Deficit – Grants for Capital Asset Creation
R.	Primary Deficit	3.	Revenue Expenditure – Revenue Receipts
S.	Effective Revenue Deficit	4.	Total Expenditure – Revenue Receipts + Non-debt Receipts

Code:
(A) P-3, Q-4, R-1, S-2
(B) P-3, Q-1, R-4, S-2
(C) P-2, Q-4, R-1, S-3
(D) P-1, Q-3, R-2, S-4

Ans :

(A) P-3, Q-4, R-1, S-2
The correct pairings are based on standard definitions. Revenue Deficit (P) is Revenue Expenditure - Revenue Receipts (3). Fiscal Deficit (Q) is Total Expenditure - (Revenue Receipts + Non-debt Receipts) (4). Primary Deficit (R) is Fiscal Deficit - Interest Payments (1). Effective Revenue Deficit (S) is Revenue Deficit - Grants for Capital Asset Creation (2).

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Oct/Nov 2015

28. The Unit Trust of India (UTI) was initially established in 1963 under the regulatory and administrative control of which institution?
(A) Government of India
(B) Reserve Bank of India (RBI)
(C) Industrial Development Bank of India (IDBI)
(D) Securities and Exchange Board of India (SEBI)

Ans :

(B) Reserve Bank of India (RBI)
The Unit Trust of India (UTI) was established in 1963 by an Act of Parliament, marking a significant step in the development of the mutual fund industry in India. Initially, it was set up by the Reserve Bank of India and operated under the direct regulatory and administrative control of the RBI before this control was transferred in 1978.

May/June 2013

29. The introduction of the deposit insurance scheme in India was catalyzed by the failure of which two banks in the 1960s?
(A) Bank of Hindustan and Oudh Commercial Bank
(B) Punjab National Bank and Bank of Baroda
(C) Laxmi Bank and Palai Central Bank
(D) General Bank of India and Allahabad Bank

Ans :

(C) Laxmi Bank and Palai Central Bank
To bolster depositor confidence, which had been shaken by past bank failures, a deposit insurance scheme was introduced. The catalyst for this move was the failure of Laxmi Bank in 1960, followed by the collapse of the Palai Central Bank. This led to the passing of the Deposit Insurance Corporation (DIC) Bill in 1961.

Oct/Nov 2021

30. When the Bombay Stock Exchange (BSE) launched its equity index, the Sensex, in 1986, it was initially composed of how many top shares?
(A) 30
(B) 50
(C) 200
(D) 100

Ans :

(D) 100
During the post-independence phase, a key development in the capital market was the launch of the first equity index by the BSE in 1986. This index, known as the Sensex, was initially constructed using the top 100 shares, selected based on their market capitalisation, to represent the broader market movement and performance of the financial sector.

May/June 2024

31. Which of the following was NOT a primary economic reason that triggered India's liberalisation in 1991?
(A) A significant surplus in the balance of payments
(B) A slow rate of economic growth during the 1960s to 1980s
(C) A severe decline in exports after the dismantling of the USSR
(D) A sharp increase in the crude oil import bill due to the Gulf War

Ans :

(A) A significant surplus in the aalance of payments
The 1991 economic crisis was triggered by a "triple whammy" of negative factors. These included slow inward-looking growth, plummeting exports due to the collapse of Soviet bloc markets, and a surge in the oil import bill. This led to a severe balance of payments crisis and critically low foreign exchange reserves, not a surplus, forcing India to liberalize.

Oct/Nov 2008

32. As a consequence of the 1991 economic crisis, India had to pledge 67 tonnes of physical gold to secure an emergency loan of USD 3.9 billion from which international institution?
(A) World Bank
(B) International Monetary Fund (IMF)
(C) Asian Development Bank (ADB)
(D) World Trade Organization (WTO)

Ans :

(B) International Monetary Fund (IMF)
By June 1991, India was on the brink of bankruptcy with foreign exchange reserves crashing to under USD 1.1 billion. To avert a default on its international payment obligations, India was forced to approach the International Monetary Fund (IMF) for an emergency loan.

NODIA

widespread financial inclusion
(B) To finance large industrial projects primarily located in urban areas
(C) To manage the foreign exchange reserves and currency for the country
(D) To exclusively underwrite capital issues of large private companies

Ans :

(A) To serve the rural populace and promote widespread financial inclusion
A major policy initiative during the post-independence phase was the establishment of Regional Rural Banks (RRBs) in 1975. The specific aim of creating these banks was to extend banking services to underserved rural areas. Their primary mandate was to cater to the financial needs of the rural population and actively promote greater financial inclusion across the country.

May/June 2017

25. The establishment of which institution in 1948 marked the beginning of the era of development banking in India?
(A) Industrial Credit and Investment Corporation of India (ICICI)
(B) Industrial Development Bank of India (IDBI)
(C) Industrial Finance Corporation of India (IFCI)
(D) Small Industries Development Bank of India (SIDBI)

Ans :

(C) Industrial Finance Corporation of India (IFCI)
The concept of development banking in India, aimed at providing long-term finance for industrial growth, began in the post-independence era. The establishment of the Industrial Finance Corporation of India (IFCI) in 1948 is recognized as the inaugural event of this era, creating the first specialized Development Financial Institution (DFI) at the all-India level.

Oct/Nov 2005

26. Which institution was a pioneer in development banking by underwriting capital issues and channelling foreign currency loans from the World Bank to private industry?
(A) Industrial Credit and Investment Corporation of India (ICICI)
(B) State Financial Corporations (SFCs), which focused on state-level financing
(C) National Bank for Agriculture and Rural Development (NABARD), which focused on agriculture
(D) Unit Trust of India (UTI), which focused on mobilizing savings from small investors

Ans :

(A) Industrial Credit and Investment Corporation of India (ICICI)
The Industrial Credit and Investment Corporation of India (ICICI), established in 1955, was a landmark in the diversification of development banking. It played a pioneering role in several areas, including being one of the first institutions to underwrite public issues of capital and to act as a crucial channel for foreign currency loans from the World Bank.

May/June 2020

27. Match List-I (Institution) with List-II (Year of Establishment).
List-I
P. Industrial Development Bank of India (IDBI)
Q. National Bank for Agriculture and Rural Development (NABARD)
R. National Housing Bank (NHB)
S. Small Industries Development Bank of India (SIDBI)
List-II
1. 1990
2. 1988
3. 1982
4. 1964
Code:
(A) P-4, Q-3, R-2, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-2, R-3, S-1
(D) P-3, Q-4, R-1, S-2

Ans :

(A) P-4, Q-3, R-2, S-1
These institutions were hived off from the RBI to foster economic development. IDBI was set up in 1964 for industrial finance. NABARD was established in 1982 to focus on agriculture and rural development. NHB was created in 1988 as the apex institution for housing finance, and SIDBI was formed in 1990 for small industries.

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Financial Institutions Act, 1993
(D) The Insolvency and Bankruptcy Code, 2016, which provides for corporate resolution

Ans :

(C) The Recovery of Debts due to Banks and Financial Institutions Act, 1993
A key reform measure of the liberalisation era was to address the issue of loan recovery. To create a specialized and faster legal mechanism for this purpose, the Government of India enacted the "Recovery of Debts due to Banks and Financial Institutions Act" in 1993. This legislation enabled the establishment of Special Debt Recovery Tribunals (DRTs).

Oct/Nov 2012

38. The amendment to the Banking Companies (Acquisition and Transfer of Undertakings) Act allowed banks to raise capital through public issues, with a stipulation that the Central Government's holding would not fall below what percentage of paid-up capital?
(A) 26%
(B) 51%
(C) 49%
(D) 74%

Ans :

(B) 51%
To help public sector banks strengthen their capital base, they were allowed to access the capital market by issuing shares to the public. This was enabled by amending the relevant act. However, a crucial provision was included to ensure continued state control, stipulating that the Central Government's shareholding in these banks must not fall below 51%.

May/June 2011

39. In 1993, the RBI established an independent unit for the supervision of commercial banks. What was this new department known as?
(A) Board for Financial Supervision (BFS), which is the overseeing committee
(B) Department of Banking Operations, a pre-existing regulatory division
(C) Financial Inspection Unit, a team focused on on-site bank audits
(D) Department of Supervision, the new operational arm for the BFS

Ans :

(D) Department of Supervision, the new operational arm for the BFS
To strengthen the oversight mechanism for the banking sector, the RBI set up the Board for Financial Supervision (BFS). To support the BFS and create a dedicated operational arm, the RBI established a new, independent unit in 1993. This unit was specifically named the Department of Supervision, tasked with the supervision of commercial banks.

Oct/Nov 2020

40. What was the 'Narrow Banking Concept' recommended by the Narasimham Committee-II (1998) for the rehabilitation of weak banks with high NPAs?
(A) Allowing weak banks to invest their funds only in short-term, risk-free government assets
(B) Allowing weak banks to merge exclusively with strong, profitable international banks
(C) Restricting weak banks to operate only within a narrow, pre-defined geographical area
(D) Permitting weak banks to lend only to a narrow, pre-approved set of safe industries

Ans :

(A) Allowing weak banks to invest their funds only in short-term, risk-free government assets
The Narasimham Committee-II addressed the problem of weak public sector banks burdened with high Non-Performing Assets (NPAs). It proposed the 'Narrow Banking Concept' for their rehabilitation. This concept suggested that such banks should be restricted to placing their funds exclusively in short-term and completely risk-free assets, like government securities, to prevent further asset deterioration.

May/June 2022

41. The Narasimham Committee-II (1998) recommended an increase in the prescribed minimum capital adequacy ratio to what level to improve the loss absorption capacity of banks?
(A) 8%
(B) 10%
(C) 9%
(D) 12%

Ans :

(C) 9%

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To further enhance the inherent strength and resilience of the Indian banking system, the Narasimham Committee-II (1998) recommended raising the bar for capital adequacy. It suggested that the government should increase the prescribed minimum Capital Adequacy Ratio from the then-existing 8% to 9%, thereby improving the banks' capacity to absorb potential losses.

Oct/Nov 2023

42. Which of the following was NOT one of the three credit rating agencies mentioned as being established during the liberalisation period (1991-2010)?
(A) Fitch
(B) CRISIL
(C) ICRA
(D) CARE

Ans :

(A) Fitch
The development of the financial sector during the liberalisation period included the establishment of a formal credit rating mechanism. Three domestic credit rating agencies were set up: Credit Rating Information Services of India Ltd (CRISIL), Investment Information and Credit Rating Agency Ltd (ICRA), and Credit Analysis and Research Ltd (CARE). Fitch is an international rating agency.

May/June 2016

43. Which stock exchange introduced screen-based trading in India at its inception in 1992, revolutionizing the capital market?
(A) Bombay Stock Exchange (BSE)
(B) Calcutta Stock Exchange (CSE)
(C) Over-The-Counter Stock Exchange of India (OTCEI)
(D) National Stock Exchange (NSE) Ltd.

Ans :

(D) National Stock Exchange (NSE) Ltd.
A major technological leap in the Indian capital market was the introduction of electronic trading. The National Stock Exchange (NSE), established in the liberalisation era, was the pioneer in this regard. It introduced screen-based trading right from its inception in 1992, which enabled on-line, electronic, and order-driven transactions from remote terminals across the country.

Oct/Nov 2014

44. The Depositories Act of 1996 led to the establishment of NSDL and CDSL. What major transformation did these institutions bring to the capital market?
(A) Introduction of currency derivatives trading
(B) Dematerialisation of securities
(C) Establishment of Debt Recovery Tribunals
(D) Regulation of domestic mutual funds

Ans :

(B) Dematerialisation of securities
The Depositories Act, 1996 was a landmark legislation for the Indian capital market. It enabled the creation of two depositories, NSDL and CDSL. Their primary function was to facilitate the holding and transfer of securities in electronic form, a process known as dematerialisation. This eliminated risks associated with physical share certificates and improved efficiency.

NODIA

May/June 2005

45. The settlement cycle in the Indian stock market was progressively shortened. What was the settlement cycle basis introduced in April 2003?
(A) T+5
(B) T+3
(C) T+2
(D) T+1

Ans :

(C) T+2
To reduce settlement risk and improve market efficiency, the settlement cycle for stock market transactions was systematically shortened. After moving from a weekly system to a rolling settlement on a T+5 basis in July 2001, and then to T+3 in April 2002, the cycle was further reduced to a T+2 basis in April 2003.

Oct/Nov 2025

46. What are the specialised institutions, such as Primary Dealers (PDs) and Money Market Mutual Funds (MMMFs), that emerged in the post-1990 period designed to do?
(A) To provide early-stage venture capital funding to technology startups
(B) To primarily regulate the foreign exchange market and currency derivatives
(C) To offer comprehensive deposit insurance to all cooperative bank customers
(D) To act as market makers and deepen the bond and government securities market

Ans :

(D) To act as market makers and deepen the bond and government securities market

A notable development in the money market post-1990 was the emergence of specialised institutions. Primary Dealers (PDs) and Money Market Mutual Funds (MMMFs) were created to play specific roles. They serve as market makers, providing liquidity and depth to the market for government securities and corporate bonds, thereby improving the overall efficiency of these markets.

May/June 2019

47. Consider the following statements regarding the liberalisation phase (1991-2010):

1. The Foreign Exchange Regulation Act (FERA) was replaced by the more liberal Foreign Exchange Management Act (FEMA).
2. The policy of 'License Raj' was abolished.
3. Import duties were significantly increased to protect domestic industries.

Which of the statements given above is/are correct?

(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(B) 1 and 2 only

The liberalisation phase saw sweeping reforms across various sectors. These included the abolition of the 'License Raj' and production licensing, and the replacement of the restrictive FERA with the more flexible FEMA. However, a key aspect of trade policy reform was the reduction, not increase, of import duties to open up the economy to global competition.

Oct/Nov 2006

48. Based on the flowchart in Figure 20.4, what event immediately follows the securitisation of home loan portfolios by investment banks?

(A) Banks start financing sub-prime borrowers.
(B) Investors, including foreign investors, buy the securitised products.
(C) Interest rates rise and sub-prime borrowers default.
(D) Post 9/11, interest rates in the USA crashed.

Ans :

(B) Investors, including foreign investors, buy the securitised products.

The flowchart depicts the sequence of events leading to the Global Financial Crisis. According to step 3, investment banks securitise home loan portfolios. Step 4, which immediately follows, states that because the interest rates on these securitised assets were higher, investors, including foreign ones, bought these securitised products, thus providing fresh funds to the banks.

May/June 2021

49. In response to the Global Financial Crisis (GFC), what was the range to which the RBI reduced the policy repo rate under the Liquidity Adjustment Facility (LAF)?

(A) From 9.0% to 5.0%
(B) From 9.0% to 4.75%
(C) From 6.0% to 3.25%
(D) From 9.0% to 3.25%

Ans :

(B) From 9.0% to 4.75%

To mitigate the impact of the GFC and inject liquidity into the system, the RBI took several quick monetary policy measures. One of the key actions was a sharp reduction in the policy repo rate under the LAF. The rate was cut in stages from a high of 9.0 down to 4.75% to make credit cheaper.

Oct/Nov 2010

50. What was the term famously used by former RBI Governor Dr. Raghuram Rajan to describe the practice of giving a fresh lease of life to unviable accounts through one-time restructuring post-GFC?

(A) "Kicking the can down the road"
(B) "Greasing the wheels"
(C) "A stitch in time"
(D) "The lender of last resort"

Ans :

(A) "Kicking the can down the road"

Although post-GFC measures like one-time restructuring of stressed accounts were intended to protect the financial sector, they had an adverse consequence. This practice of allowing unviable accounts to continue without being classified as NPAs was described by Dr. Raghuram Rajan as "kicking the can down the road," which led to a large accumulation of bad loans later.

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only repayable to the depositor upon reaching the agreed maturity date.

Oct/Nov 2014

4. A manufacturing company requires a banking facility to assure its supplier of payment for raw materials, but does not need immediate cash from the bank. The bank agrees to provide a facility that enhances the company's creditworthiness by 'lending its name'. Which type of facility is being provided?
(A) Term Loan
(B) Cash Credit
(C) Demand Loan
(D) Letter of Credit

Ans :

(D) Letter of Credit
The scenario describes a non-fund-based facility. A Letter of Credit is a prime example where the bank does not provide hard cash but instead guarantees payment to a third party on behalf of its customer, thereby enhancing the customer's creditworthiness. This fits the description of the bank 'lending its name' without an immediate cash outflow from its end.

May/June 2018

5. According to Section 7 of the Banking Regulation Act, what is the rule regarding the use of words like 'bank', 'banker', or 'banking'?
(A) Any company may use these words if engaged in financial services, provided it obtains prior approval from the Registrar of Companies for its name.
(B) Firms and individuals are permitted to use 'banking' in their business name, but 'bank' and 'banker' are reserved for incorporated banking entities.
(C) Only a banking company can use these words as part of its name, and it must use at least one of them to carry on banking business in India.
(D) The use of these words is unrestricted for any company with a net worth over Rs 500 crores, as this is deemed sufficient for financial stability.

Ans :

(C) Only a banking company can use these words as part of its name, and it must use at least one of them to carry on banking business in India.
Section 7 of the BR Act places strict restrictions on the usage of banking-related terms. It mandates that no company other than a banking company shall use words like 'bank', 'banker', or 'banking' in its name. Furthermore, it requires any company conducting banking business in India to include at least one of these words in its name.

Oct/Nov 2005

6. Which ancient Indian text, dating back to the 4th century BC, contains references to creditors and lenders, indicating the existence of banking activities?
(A) Manusmriti
(B) Kautilya Arthashastra
(C) Vedas
(D) Ramayana

Ans :

(B) Kautilya Arthashastra
The history of banking in India can be traced back to ancient times. The 'Kautilya Arthashastra', a treatise from the 4th century BC, provides some of the earliest documented evidence of financial activities, containing specific references to creditors and lenders. This highlights the long-standing presence of financial intermediation in the Indian subcontinent long before modern banking emerged.

May/June 2007

7. The establishment of which bank in 1770 in Calcutta marked the beginning of the formal Indian financial system?
(A) General Bank of India
(B) Bank of Calcutta
(C) Oudh Commercial Bank
(D) Bank of Hindustan

Ans :

(D) Bank of Hindustan
Modern banking in India began to take shape between the 18th and 19th centuries. The establishment of the Bank of Hindustan in Calcutta in the year 1770 is recognized as the starting point of the formal financial system in India, even though the bank itself discontinued its services in 1832. It predated the Presidency banks.

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May/June 2012

55. What is the name of the new apex Development Financial Institution (DFI) set up in the post-GFC phase for financing infrastructure?
(A) NARCL
(B) SIDBI
(C) NHB
(D) NaBFID

Ans :

(D) NaBFID
To address the long-term financing needs of the infrastructure sector, the government initiated the establishment of a new apex Development Financial Institution (DFI). This institution is the National Bank for Financing Infrastructure and Development (NaBFID). It has been set up to anchor and support the funding of infrastructure projects in India, a key post-GFC reform.

Oct/Nov 2022

56. The National Asset Reconstruction Co. Ltd (NARCL), also known as the 'Bad Bank', was set up to take over what type of assets from commercial banks?
(A) Impaired assets (NPAs)
(B) Government securities
(C) Gold reserves
(D) Foreign currency assets

Ans :

(A) Impaired assets (NPAs)
As part of the strategy to clean up the balance sheets of commercial banks, the National Asset Reconstruction Co. Ltd (NARCL) was established. Popularly referred to as the 'Bad Bank', its specific purpose is to acquire large-value impaired assets, or Non-Performing Assets (NPAs), from commercial banks, allowing the banks to focus on fresh lending.

May/June 2018

57. In a significant post-GFC reform, the deposit insurance cover provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC) was increased. What was the new limit per customer?
(A) From Rs 1 lakh to Rs 2 lakhs
(B) From Rs 2 lakhs to Rs 5 lakhs
(C) From Rs 1 lakh to Rs 5 lakhs
(D) From Rs 5 lakhs to Rs 10 lakhs

Ans :

(C) From Rs 1 lakh to Rs 5 lakhs
To enhance depositor protection and confidence in the banking system, a major reform was undertaken to increase the deposit insurance limit. The coverage provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC) for bank deposits was raised five-fold, from the long-standing limit of Rs 1 lakh to a new, higher limit of Rs 5 lakhs per depositor.

Oct/Nov 2016

58. Post-GFC reforms in the payments and settlements space included making NEFT and RTGS systems available how often?
(A) 24×7, including holidays
(B) During banking hours only
(C) 12 hours a day, 7 days a week
(D) From 8 AM to 8 PM daily

Ans :

(A) 24×7, including holidays
India's payments and settlements space underwent sweeping changes to become one of the most advanced globally. A key reform was the expansion of the availability of major fund transfer systems. Both the National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) systems were made available round the clock, 24×7.

May/June 2014

59. Based on the data in Figure 20.5, what is the total number of Public Sector Banks and Private Sector Banks combined?
(A) 45
(B) 55
(C) 28
(D) 34

Ans :

(D) 34
The diagram provides a category-wise breakdown of banks in India. To find the combined number of Public Sector and Private Sector banks, we need to sum the numbers given for these two categories. The diagram shows there are 12 Public Sector Banks and 22 Private Sector Banks. Therefore, the total is 12 + 22 = 34 banks.

Oct/Nov 2007

60. According to the data provided for 31st March 2021, what was the approximate total number of ATMs in India?

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(A) 158,416
(B) 213,575
(C) 115,605
(D) 97,970

Ans :

(B) 213,575
The text provides specific data on banking infrastructure as of March 31, 2021. It states that in addition to bank branches, there were a total of 213,575 ATMs spread across the country. This total includes both on-site ATMs (115,605) located at bank branches and off-site ATMs (97,970) located elsewhere, reflecting the extensive reach of banking services.

May/June 2025

61. Assertion (A): The informal financial system is characterized by a lack of regulations and unstructured procedures.
Reason (R): The informal financial system evolved as an extension of the social structure, often operating among known parties like relatives and neighbours.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.
The assertion correctly states the features of the informal system. The reason provides the context for these features. Because the system operates within close social networks (relatives, neighbours, traders), formal regulations and structured procedures are often deemed unnecessary. Trust and social ties substitute for formal contracts, explaining the lack of regulation and structure.

Oct/Nov 2019

62. Statement I: Non-Banking Institutions like insurance companies can accept monetary deposits from the public.
Statement II: Banking Institutions like commercial banks primarily sell financial products to customers and cannot accept deposits.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Ans :

(B) Both Statement I and Statement II are incorrect.
Both statements misrepresent the roles of these institutions. Non-Banking Institutions like insurance companies sell financial products and cannot accept deposits in the way banks do. Conversely, the primary function of Banking Institutions (Depository Institutions) is to collect money from the public as deposits and lend it, not just sell products. Both statements are factually incorrect.

May/June 2009

63. In 1997, a Public Sector Bank had Non-Performing Assets (NPAs) amounting to 20% of its total assets. The bank was struggling with profitability and further lending risk. If the Narasimham Committee-II's recommendations were to be applied to this bank, which strategy would be most appropriate for its rehabilitation?
(A) Adopt the 'Narrow Banking' concept by investing funds only in government securities.
(B) Aggressively expand its loan book to high-risk, high-return sectors to boost income.
(C) Immediately merge with another similarly weak bank to consolidate and reduce costs.
(D) Increase its number of rural branches to improve its financial inclusion metrics.

Ans :

(A) Adopt the 'Narrow Banking' concept by investing funds only in government securities.
The scenario describes a weak bank with high NPAs, which is the exact problem the 'Narrow Banking Concept' from the Narasimham Committee-II (1998) was designed to address. This concept recommended that such banks should deploy their funds only in short-term, risk-free assets like government securities, thereby preventing further loan losses and aiding in rehabilitation.

Oct/Nov 2011

64. Refer to the Sensex chart in Figure 20.3. What general trend can be observed in the Sensex

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movement from its inception in 1986 to the period just before March 2020?
(A) The index remained mostly flat with minimal long-term growth.
(B) The index experienced significant overall growth, despite periods of volatility.
(C) The index showed a consistent and steady decline over the entire period.
(D) The index peaked in the late 1990s and declined steadily thereafter.

Ans :

(B) The index experienced significant overall growth, despite periods of volatility.
The chart visually depicts the journey of the Sensex from its launch. While there are numerous peaks and troughs indicating market volatility, the overarching trajectory is clearly upward. The index started from a low base and climbed to values exceeding 40,000 before the sharp drop in March 2020, testifying to the substantial long-term growth of the financial sector.

May/June 2010

65. Consider the following statements about the post-GFC reforms:
1. The JAM Trinity refers to Jan-Dhan, Aadhar, and Mobile.
2. The National Asset Reconstruction Co. Ltd (NARCL) is also known as the 'Bad Bank'.
3. The FDI limit in the insurance sector was decreased from 74% to 49%.

Which of the statements given above is/are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 and 2 only
The post-GFC reforms included leveraging the JAM (Jan-Dhan, Aadhar, Mobile) Trinity for financial inclusion and setting up NARCL or the 'Bad Bank' to handle NPAs. Both statements 1 and 2 are correct. However, statement 3 is incorrect; the FDI limit in the insurance sector was increased from 49% to 74%, not decreased, to attract more foreign investment.

Oct/Nov 2024

66. Arrange the following events in the correct chronological sequence of their occurrence:
1. Nationalisation of 14 major commercial banks.
2. Establishment of Industrial Finance Corporation of India (IFCI).
3. Formation of Life Insurance Corporation of India (LIC).
4. Nationalisation of the Reserve Bank of India (RBI).

(A) 4, 2, 3, 1
(B) 2, 4, 3, 1
(C) 4, 3, 2, 1
(D) 2, 3, 4, 1

Ans :

(B) 2, 4, 3, 1
The correct chronological order of the events is as follows: The Industrial Finance Corporation of India (IFCI) was established in 1948. The Reserve Bank of India (RBI) was nationalised later in 1948. The Life Insurance Corporation of India (LIC) was formed in 1956. Finally, 14 major commercial banks were nationalised in 1969. This corresponds to the sequence 2, 4, 3, 1.

May/June 2017

67. An investor in July 2002 purchased shares on the National Stock Exchange. Based on the settlement cycle reforms during that period, on which day would the transaction have settled, relative to the trade day (T)?
(A) T+5
(B) T+2
(C) T+3
(D) T+1

Ans :

(C) T+3
The question pertains to the settlement cycle in July 2002. The text states that the rolling settlement on a T+5 basis was introduced in July 2001. It was then further reduced to T+3 in April 2002 and subsequently to T+2 in April 2003. Therefore, for a trade in July 2002, the applicable settlement cycle would have been T+3.

Oct/Nov 2005

68. Match List-I (Committee/Agenda) with List-II (Primary Focus).
List-I
P. Narasimham Committee - I
Q. P J Nayak Committee
R. Nachiket Mor Committee
S. EASE Agenda

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List-II
1. Governance of Bank Boards
2. Calibrating PSU Bank performance
3. Comprehensive Financial Services for Low-Income Households
4. Initial financial sector reforms (SLR/CRR reduction)

Code:
(A) P-4, Q-1, R-3, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-4, Q-3, R-1, S-2
(D) P-3, Q-1, R-4, S-2

Ans :

(A) P-4, Q-1, R-3, S-2
Narasimham Committee-I (1991) kickstarted financial sector reforms, including SLR/CRR reduction. P J Nayak Committee (2014) focused on reviewing the governance of bank boards. Nachiket Mor Committee (2013) recommended measures for comprehensive financial services, leading to differentiated banks. EASE Agenda is a framework for calibrating the performance of Public Sector Banks and fostering competition among them.

May/June 2020

69. Which of the following statements regarding the development of the Indian financial system is incorrect?
(A) The Bombay Stock Exchange (BSE), established in 1875, was Asia's first stock exchange.
(B) The regulation of the foreign exchange market originated with the Defense of India Rules (DIR) in 1939.
(C) The Bank of Calcutta, established in 1806, was later renamed the Bank of Madras.
(D) The failure of Palai Central Bank catalyzed the introduction of a deposit insurance scheme.

Ans :

(C) The Bank of Calcutta, established in 1806, was later renamed the Bank of Madras.
The statement that the Bank of Calcutta was renamed the Bank of Madras is incorrect. The Bank of Calcutta, established in 1806, was renamed the Bank of Bengal in 1809. The Bank of Madras was a separate Presidency Bank established in 1843. The other statements regarding the BSE, DIR, and the Palai Central Bank are all factually correct.

Oct/Nov 2015

70. According to Figure 20.1, which of the following is categorized under "Financial Instruments"?
(A) Regulators
(B) Liability Products
(C) Banks
(D) Forex Market

Ans :

(B) Liability Products
The diagram clearly illustrates the structure of the financial system. It shows three main components: Intermediaries, Instruments, and Markets. Under the "Financial Instruments" branch, it further lists three sub-categories: Asset Products, Liability Products, and Services. Therefore, Liability Products are correctly categorized as a type of Financial Instrument according to the provided chart, whereas the other options belong to different branches.

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CHAPTER 21

Indian Banking Structure

May/June 2011

1. According to the text, which of the following is NOT listed as a primary role of banks in the economy?

(A) Ameliorating information problems between investors and borrowers.

(B) Directly controlling the fiscal policy of the government.

(C) Providing intertemporal smoothing of risk and insurance against consumption shocks.

(D) Contributing to the growth of the economy and performing a role in corporate governance.

Ans :

(B) Directly controlling the fiscal policy of the government.

Banks play critical roles like mitigating information asymmetry, managing risk over time, ensuring proper use of depositor funds, and contributing to economic growth. However, they do not control fiscal policy, which is the domain of the government. Banks are central to the financial system but operate within the monetary and regulatory framework, not as fiscal authorities.

Oct/Nov 2021

2. As per Section 5(1)(b) of the Banking Regulation Act, 1949, what is the definition of 'banking'?

(A) The accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise.

(B) The exclusive provision of non-fund-based credit facilities, such as Letters of Credit and Bank Guarantees, to corporate clients without engaging in deposit-taking.

(C) The primary function of transacting in government securities on behalf of the state and managing statutory reserves for other financial institutions.

(D) The exclusive management of a country's currency and credit system, acting as an agent for the central bank to implement monetary policy directives.

Ans :

(A) The accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise.

Section 5(1)(b) of the BR Act, 1949, provides a classical definition of banking. It specifies the core functions as accepting public deposits for the purpose of lending or investment. A key characteristic is that these deposits are repayable on demand or otherwise and can be withdrawn by cheque, draft, order, or other means.

NODIA

May/June 2024

3. Which of the following correctly distinguishes between demand deposits and time deposits?

(A) Demand deposits are held for fixed periods and are repayable on maturity, while time deposits can be demanded for repayment at any time without notice.

(B) Both demand and time deposits are repayable on demand without notice, but time deposits typically offer a significantly higher rate of interest.

(C) Demand deposits can be demanded for repayment at any time, whereas time deposits are placed for fixed periods and repayable only on maturity.

(D) Demand deposits serve exclusively for long-term investment purposes, whereas time deposits are primarily used for daily transactional needs by depositors.

Ans :

(C) Demand deposits can be demanded for repayment at any time, whereas time deposits are placed for fixed periods and repayable only on maturity.

The fundamental difference lies in their liquidity and repayment terms. Demand deposits, as the name implies, offer high liquidity, allowing depositors to withdraw funds at any time without prior notice. In contrast, time or term deposits are held for a predetermined fixed period and are

May/June 2023

51. The licensing of differentiated banks like Payments Banks and Small Finance Banks was a direct result of the recommendations of which committee?

(A) P J Nayak Committee
(B) Narasimham Committee - II
(C) Nachiket Mor Committee
(D) Rangarajan Committee

Ans :

(C) Nachiket Mor Committee
The move to introduce differentiated banks in India was a key post-GFC reform aimed at deepening financial inclusion. The licensing of Payments Banks and Small Finance Banks was a direct outcome of the recommendations made by the Nachiket Mor Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households, which was set up by the RBI in 2013.

Oct/Nov 2018

52. A committee was set up by the RBI in 2014, chaired by the former Chairman of Axis Bank, to review the governance of bank boards. It was mandated to examine issues of director tenure, board compensation, and conflicts of interest. Which committee is being referred to?

(A) The Nachiket Mor Committee, which focused on financial inclusion for low-income households
(B) The Usha Thorat Committee, which reviewed the framework for urban co-operative banks
(C) The Bimal Jalan Committee, which examined the economic capital framework of the RBI
(D) The P J Nayak Committee, which was tasked to review governance of bank boards in India

Ans :

(D) The P J Nayak Committee, which was tasked to review governance of bank boards in India
The scenario describes the mandate of the P J Nayak Committee. Officially known as the Committee to Review Governance of Boards of Banks in India, it was set up by the RBI in 2014. Chaired by P J Nayak, it was specifically tasked with examining various aspects of bank board governance, including director criteria, tenure, compensation, and conflicts of interest.

May/June 2007

53. What is the primary purpose of the EASE (Enhanced Access and Service Excellence) agenda?

(A) To specifically regulate the operations of Non-Banking Financial Companies
(B) To centrally manage the foreign exchange and gold reserves of the country
(C) To calibrate the performance of Public Sector Banks and foster competition
(D) To exclusively supervise the complex functioning of urban cooperative banks

Ans :

(C) To calibrate the performance of Public Sector Banks and foster competition
The EASE (Enhanced Access and Service Excellence) agenda is a key reform initiative introduced in the post-GFC phase for state-owned banks. Its primary purpose is to establish a common framework to measure and compare the performance of Public Sector Banks across various parameters, thereby fostering healthy competition and collaboration among them to improve service and efficiency.

Oct/Nov 2009

54. The operationalisation of the Insolvency and Bankruptcy Code (IBC) was a major reform in the post-GFC phase. What is its main objective?

(A) To provide cheaper, long-term credit for national infrastructure projects
(B) For speedy resolution of stressed assets to preserve underlying economic wealth
(C) To facilitate the compulsory merger of weak public sector banks with strong ones
(D) To significantly increase the foreign direct investment limit in the insurance sector

Ans :

(B) For speedy resolution of stressed assets to preserve underlying economic wealth
The Insolvency and Bankruptcy Code (IBC) was enacted to address the long-standing problem of delayed resolution of corporate distress. Its main objective is to provide a time-bound and creditor-driven process for the speedy resolution of stressed assets. This helps in either reviving a viable business or liquidating an unviable one, thereby preserving and protecting economic wealth.

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Oct/Nov 2019

8. The three Presidency Banks—Bank of Bengal, Bank of Bombay, and Bank of Madras—were merged in 1921 to form which single entity?
(A) Imperial Bank of India
(B) Reserve Bank of India
(C) State Bank of India
(D) Central Bank of India

Ans :

(A) Imperial Bank of India
The three Presidency banks, which were established in the 19th century and governed by Royal Charters, were the dominant banking institutions of their time. In 1921, these three banks—the Bank of Bengal, the Bank of Bombay, and the Bank of Madras—were amalgamated to create the Imperial Bank of India, a significant consolidation in Indian banking history.

May/June 2022

9. As a result of the 'Swadeshi Movement', a number of ethnic Indian banks were established. Which of the following banks was NOT established during that period?
(A) Punjab National Bank
(B) Bank of Baroda
(C) State Bank of India
(D) Indian Bank

Ans :

(C) State Bank of India
The Swadeshi Movement in the late 19th and early 20th centuries spurred the establishment of several Indian-owned banks. These included Punjab National Bank (1894), Bank of India (1906), Indian Bank (1907), and Bank of Baroda (1908). State Bank of India was formed much later, in 1955, through the conversion of the Imperial Bank of India.

Oct/Nov 2016

10. The establishment of a central bank, the Reserve Bank of India, was recommended by which commission in 1935?
(A) Hilton Young Commission
(B) Narasimham Committee
(C) Swadeshi Commission
(D) Royal Charter Commission

Ans :

(A) Hilton Young Commission
The financial turbulence of the 1920s and 1930s, which led to the failure of many banks, highlighted the urgent need for a banking regulator. The Hilton Young Commission was constituted to address this, and it was this commission that recommended the establishment of a central bank for India, which led to the creation of the Reserve Bank of India.

May/June 2013

11. What was the minimum deposit threshold for the 14 largest private banks that were nationalised on 19th July, 1969?
(A) Deposits of over Rs 25 crores
(B) Deposits of over Rs 100 crores
(C) Deposits of over Rs 200 crores
(D) Deposits of over Rs 50 crores

Ans :

(D) Deposits of over Rs 50 crores
The first major phase of bank nationalisation occurred on July 19, 1969. In this momentous move, the government nationalised the 14 largest private sector banks. The criterion for this selection was that each of these banks had aggregate deposits of more than Rs 50 crores, aiming to align the banking sector with national development goals.

NODIA

Oct/Nov 2023

12. Based on the data in Figure 21.1, what was the approximate increase in the number of rural branches between July 1969 and March 2020?
(A) 26 times
(B) 36 times
(C) 46 times
(D) 16 times

Ans :

(B) 36 times
According to Figure 21.1, the number of rural branches in July 1969 was 1,443. By March 2020, this number had grown to 52,494. The approximate increase is calculated as

$$\frac{52,494}{1,443} \approx 36.37$$

This shows a massive expansion of banking into rural areas, a key objective of the nationalisation policy and subsequent financial inclusion efforts.

May/June 2005

13. What was the primary objective of the Lead Bank Scheme launched by the RBI in December 1969?

(B) Issuing credit cards
(C) Accepting term deposits
(D) Setting up subsidiaries for non-banking financial activities

Ans :

(A) Accepting demand deposits up to Rs 2 lakhs
The operational scope of Payments Banks is restricted. They are prohibited from lending, issuing credit cards, and accepting NRI or term deposits. However, their primary function is to accept demand deposits (in savings and current accounts) from customers, with the maximum balance per customer currently capped at Rs 2 lakhs.

May/June 2008

41. According to the investment norms for Payments Banks, what is the minimum percentage of their demand deposit balance that must be invested in eligible government securities (SLR)?
(A) 25%
(B) 40%
(C) 75%
(D) 50%

Ans :

(C) 75%
To ensure the safety of depositor funds and minimize credit risk, Payments Banks have strict investment guidelines. They are required to invest a minimum of 75% of their demand deposit balance in Statutory Liquidity Ratio (SLR) eligible government securities. The remaining 25% can be placed as deposits with other scheduled commercial banks.

Oct/Nov 2007

42. A migrant worker opens an account with a Payments Bank and deposits Rs. 1,50,000. A month later, he tries to deposit another Rs. 70,000 into the same account. What is the maximum additional amount the Payments Bank can accept from him at that moment?
(A) Rs. 50,000
(B) Rs. 70,000
(C) Rs. 20,000
(D) No additional amount can be accepted.

Ans :

(A) Rs. 50,000
Payments Banks are permitted to accept deposits up to a maximum of Rs. 2,00,000 per customer. Since the customer already has a balance of Rs. 1,50,000, the bank can only accept an additional Rs. 50,000 to reach the ceiling of Rs. 2,00,000. Accepting the full Rs. 70,000 would violate the regulatory limit for the account.

May/June 2016

43. What is the current minimum paid-up equity capital requirement for setting up a Small Finance Bank (SFB)?
(A) Rs 100 crores
(B) Rs 300 crores
(C) Rs 500 crores
(D) Rs 200 crores

Ans :

(D) Rs 200 crores
The minimum capital requirement for Small Finance Banks was initially set at Rs 100 crores but was subsequently increased to ensure greater financial stability and capacity for growth. The current guideline mandates a minimum paid-up equity capital of Rs 200 crores for new entities applying for an SFB license, with an exception for converting Urban Cooperative Banks.

Oct/Nov 2021

44. Which of the following entities are NOT listed as being eligible to apply for conversion into a Small Finance Bank?
(A) Non-Banking Finance Companies (NBFCs)
(B) Public Sector Banks (PSBs)
(C) Micro Finance Institutions (MFIs)
(D) Local Area Banks (LABs)

Ans :

(B) Public Sector Banks (PSBs)
The guidelines for setting up Small Finance Banks specifically mention that existing NBFCs, MFIs, and LABs that are owned and controlled by residents are eligible to opt for conversion into an SFB. Public Sector Banks are already full-fledged universal banks and are not in the category of entities that would convert into an SFB.

May/June 2011

45. As per the promoter's contribution norms for a Small Finance Bank, what is the maximum percentage of paid-up voting equity capital the promoter can hold after 15 years from the commencement of business?
(A) 40%
(B) 30%

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Ans :

(B) State Cooperative Banks
Scheduled banks are broadly divided into scheduled commercial banks and scheduled cooperative banks. The categories of scheduled commercial banks include Public Sector Banks, Private Sector Banks, Foreign Banks, Local Area Banks, Regional Rural Banks, and Differentiated Banks. State Cooperative Banks fall under the separate category of scheduled cooperative banks, not commercial banks, as shown in the structural diagram.

Oct/Nov 2012

18. What is a key disadvantage for a Non-Scheduled Bank compared to a Scheduled Bank?
(A) They are not eligible to borrow from the RBI for their normal operations.
(B) They are legally prohibited from accepting any form of deposits from the general public.
(C) They are exempt from the provisions of the Banking Regulation Act, 1949.
(D) They are strictly forbidden from extending any type of loans or advances.

Ans :

(A) They are not eligible to borrow from the RBI for their normal operations.
A significant distinction is that Non-Scheduled Banks cannot access the RBI's lending facilities, like borrowing at the Bank Rate, for their regular business needs. They can only borrow from the RBI in emergencies. This limits their liquidity management options compared to Scheduled Banks, which have regular access to RBI's financial support and are members of clearing houses.

May/June 2020

19. As a matter of policy by the RBI, which type of cooperative banks are not accorded scheduled status?
(A) Urban Cooperative Banks
(B) State Cooperative Banks
(C) District Central Cooperative Banks
(D) Multi-State Cooperative Banks

Ans :

(C) District Central Cooperative Banks
The text explicitly states that, as a matter of policy, District Central Cooperative Banks are not granted scheduled status by the Reserve Bank of India. These banks are federated to their respective State Cooperative Banks and access remittance and other facilities through them, rather than directly as scheduled entities with the RBI.

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Oct/Nov 2025

20. Public Sector Banks (PSBs) in India currently comprise of which two groups of banks?
(A) State Bank of India and its 7 subsidiaries.
(B) 12 nationalised banks and Regional Rural Banks.
(C) State Bank of India and Old Private Sector Banks.
(D) State Bank of India and 11 nationalised banks.

Ans :

(D) State Bank of India and 11 nationalised banks.
The composition of Public Sector Banks is clearly defined. It consists of the State Bank of India, which was constituted under the SBI Act of 1955, and the nationalised banks, which were constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980. The current number of nationalised banks is 11.

May/June 2010

21. The distinction between 'Old Private Sector Banks' and 'New Private Sector Banks' is based on which historical event?
(A) The establishment of the Reserve Bank of India in 1935.
(B) The introduction of the Banking Regulation Act in 1949.
(C) The nationalisation of banks starting in 1969.
(D) The economic liberalisation reforms of 1991.

Ans :

(D) The economic liberalisation reforms of 1991.
The timeline of nationalisation serves as the dividing line. 'Old Private Sector Banks' are those that were established and operational before the major bank nationalisation drive that began in 1969. 'New Private Sector Banks' are those that were granted licenses to operate after the nationalisation period, particularly following the economic reforms of the early 1990s.

be brought in upfront as a remittance from the parent bank, demonstrating a strong commitment to the Indian market.

May/June 2014

31. The scheme for setting up Local Area Banks (LABs) was announced in August 1996 with the primary objective of:
(A) Mobilising rural savings and making them available for investment in local areas.
(B) Specifically financing large-scale infrastructure projects located exclusively within metropolitan cities.
(C) Actively competing with established foreign banks in the areas of foreign exchange and international trade finance.
(D) Exclusively serving the banking needs of high-net-worth individuals and large corporate clients in specified zones.

Ans :

(A) Mobilising rural savings and making them available for investment in local areas.
The core idea behind the establishment of Local Area Banks was to bridge credit gaps in rural and semi-urban areas. The objective was to create local institutions that could effectively mobilise savings from the rural populace and channel those funds back into the local economy for investment, thereby strengthening the institutional credit mechanism at the grassroots level.

Oct/Nov 2009

32. What is the maximum area of jurisdiction for a Local Area Bank (LAB)?
(A) A single district
(B) A maximum of three contiguous districts
(C) An entire state
(D) Five districts anywhere in the country

Ans :

(B) A maximum of three contiguous districts
Local Area Banks were designed to have a specific and limited geographical focus. Their jurisdiction is restricted to a maximum of three contiguous districts. This ensures that their operations remain localized, aligning with their objective of mobilizing local savings for local investment and catering to the credit needs of that specific rural and semi-urban region.

May/June 2021

33. What percentage of total credit are Local Area Banks (LABs) required to lend to the priority sectors?
(A) 18%
(B) 40%
(C) 75%
(D) 60%

Ans :

(B) 40%
While their major function is to finance agriculture and allied activities in rural areas, Local Area Banks are also subject to priority sector lending norms. They are required to lend at least 40% of their total credit to designated priority sectors. This ensures that a significant portion of their lending contributes to the development of key sectors of the local economy.

Oct/Nov 2013

34. The establishment of Regional Rural Banks (RRBs) in 1975 was based on the recommendations of which committee?
(A) Narasimham Committee
(B) Hilton Young Commission
(C) Nachiket Mor Committee
(D) Rangarajan Committee

Ans :

(A) Narasimham Committee
The Narasimham Committee was of the view that a new type of institution was needed that would be better suited than commercial or cooperative banks to meet the specific credit needs of rural areas. Based on these recommendations, the government promulgated an ordinance in 1975, followed by the Regional Rural Banks Act in 1976, leading to their establishment.

May/June 2006

35. Which of the following is NOT listed as an objective of Regional Rural Banks (RRBs)?
(A) Bridging the credit gaps in rural areas.
(B) Restricting the outflow of rural deposits to urban areas.
(C) Providing foreign exchange services for international trade.
(D) Generating employment opportunities in rural areas.

Ans :

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Ans :

(A) The mandate to primarily serve India's rural population.
The text outlines four key motivations for foreign banks operating in India: following their home clients, seeking local profits, leveraging opportunities in the host country, and having ways to reduce business information costs. A specific mandate to primarily serve the rural population is not listed as a primary driver for their entry or presence in the country.

May/June 2009

27. Foreign banks operating in India can use three common modes of operation. Which of the following is NOT one of these modes?
(A) Branches
(B) Subsidiaries
(C) Representative Offices
(D) Franchisee Agreements

Ans :

(D) Franchisee Agreements
The chapter clearly lists the three common ways through which foreign banks can establish their presence and operate in an overseas market like India. These modes are setting up direct branches, establishing subsidiaries (like a Wholly Owned Subsidiary), or opening representative offices. Franchisee agreements are not mentioned as a standard mode of operation for foreign banks.

Oct/Nov 2006

28. A foreign bank wishes to establish operations in India. Its home country's legislation gives preferential claims to domestic depositors in the event of a winding-up. According to RBI guidelines, what mode of entry must this bank use?
(A) The direct branch model only, to ensure direct liability of the parent bank.
(B) The Wholly Owned Subsidiary (WOS) model only.
(C) Either the branch or the WOS model, based on the bank's own strategic preference.
(D) A representative office for an initial period, before mandatory conversion to a branch.

Ans :

(B) The Wholly Owned Subsidiary (WOS) model only.
RBI guidelines stipulate specific conditions under which entry is permitted only through the Wholly Owned Subsidiary (WOS) model. One such condition is when the home country's laws provide preferential treatment to its own depositors. This mandate ensures that the Indian operations are ring-fenced as a separate legal entity, protecting the interests of Indian depositors.

May/June 2025

29. Assertion (A): RBI requires certain foreign banks to enter India only through the Wholly Owned Subsidiary (WOS) model.
Reason (R): The WOS model provides better regulatory oversight and ring-fences the Indian operations from risks associated with the parent bank, especially if the home country regulation is not satisfactory to RBI.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that RBI mandates the WOS model for certain foreign banks is true. The reason provided is also true and correctly explains the rationale. The WOS structure creates a separate legal entity in India, which allows for stronger local regulation and supervision, and insulates the Indian depositors and financial system from potential problems at the parent bank.

Oct/Nov 2018

30. What is the minimum paid-up capital requirement for a foreign bank applying to operate in India?
(A) Rs 100 crore
(B) Rs 200 crore
(C) Rs 750 crore
(D) Rs 500 crore

Ans :

(D) Rs 500 crore
The capital requirements for foreign banks seeking to operate in India are stringent to ensure their financial soundness. The guidelines specify that the applicant bank must have a minimum paid-up capital of Rs 500 crore. This capital must

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Oct/Nov 2017

22. What is the current minimum initial paid-up capital requirement for setting up a Universal Bank in the private sector?
(A) Rs 100 crores
(B) Rs 500 crores
(C) Rs 200 crores
(D) Rs 1000 crores

Ans :

(B) Rs 500 crores
The guidelines for establishing new Universal Banks in the private sector have evolved over time. The present requirement, as stated in the text, mandates an initial minimum paid-up capital of Rs 500 crores. Furthermore, these banks are required to maintain a minimum net worth of Rs 500 crores at all times to ensure financial stability.

May/June 2016

23. Consider the following statements regarding the guidelines for setting up Universal Banks in the private sector:
1. Large industrial houses are completely prohibited from investing in these banks.
2. The bank must be listed on a Stock Exchange within 6 years of commencing business.
3. The bank must open at least 25% of its branches in unbanked rural areas.

Which of the above statements is/are correct?
(A) 1 and 2 only
(B) 1 and 3 only
(C) 1, 2 and 3
(D) 2 and 3 only

Ans :

(D) 2 and 3 only
Statement 1 is incorrect as large industrial houses can invest up to 10% in the banks, though they cannot set them up. Statement 2 is correct, mandating listing within 6 years. Statement 3 is also correct, as it specifies a key financial inclusion requirement of opening at least 25% of branches in unbanked rural areas.

Oct/Nov 2022

24. As per the merger diagram in Figure 21.3, which two banks were merged with Bank of Baroda in 2019?
(A) Dena Bank and Vijaya Bank
(B) Andhra Bank and Corporation Bank
(C) Oriental Bank of Commerce and United Bank of India
(D) Syndicate Bank and Allahabad Bank

Ans :

(A) Dena Bank and Vijaya Bank
The diagram visually represents the recent consolidation of nationalised banks. The first merger depicted shows that Dena Bank and Vijaya Bank were amalgamated with Bank of Baroda. This three-way merger was a significant step in the government's plan to create larger and stronger public sector banks capable of supporting a growing economy and competing globally.

May/June 2012

25. According to the guidelines for setting up private sector Universal Banks, what is the maximum foreign shareholding limit permitted?
(A) 49% as per specific RBI guidelines applicable only to the banking sector.
(B) 100% under the automatic route, with no government approval required.
(C) 74% as per FDI guidelines of the Government of India.
(D) 26% as a combined cap for all foreign institutional investors (FIIs).

Ans :

(C) 74% as per FDI guidelines of the Government of India.
The guidelines specify that the foreign shareholding in new private sector Universal Banks will be governed by the prevailing Foreign Direct Investment (FDI) policy. The text mentions that the present maximum limit under these guidelines is 74%. This cap ensures a balance between attracting foreign capital and maintaining domestic control over the banking sector.

Oct/Nov 2011

26. Which of the following is NOT listed as one of the four main drivers for the presence of foreign banks in India?
(A) The mandate to primarily serve India's rural population.
(B) The desire to follow their home country customers abroad.
(C) The attractiveness of local profit opportunities in India.
(D) The presence of mechanisms to mitigate information costs of doing business.

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(C) Providing foreign exchange services for international trade.

The objectives of RRBs are centered on rural development: bridging credit gaps, retaining rural funds for local use, and creating employment. While RRBs can now undertake various banking activities, providing extensive foreign exchange services for international trade is not one of their primary objectives; their forex business is allowed only to a limited extent.

Oct/Nov 2020

36. According to Section 5 of the Regional Rural Banks (Amendment) Act, 2015, what is the shareholding pattern for the capital issued by a Regional Rural Bank (RRB)?

(A) Central Govt: 50%, State Govt: 35%, Sponsor Bank: 15%
(B) Central Govt: 35%, State Govt: 15%, Sponsor Bank: 50%
(C) Central Govt: 51%, State Govt: 25%, Sponsor Bank: 24%
(D) Central Govt: 50%, State Govt: 15%, Sponsor Bank: 35%

Ans :

(D) Central Govt: 50%, State Govt: 15%, Sponsor Bank: 35%

The text specifies the capital structure of an RRB as per the act. Out of the issued capital, 50% is held by the Central Government, 15% by the concerned State Government, and the remaining 35% by the Sponsor Bank. This tripartite ownership structure ensures support and oversight from all three key stakeholders in the bank's operations.

May/June 2023

37. What is the priority sector lending target for Regional Rural Banks (RRBs) as a percentage of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE)?

(A) 40%
(B) 50%
(C) 75%
(D) 60%

Ans :

(C) 75%

Given their mandate to serve the rural economy, Regional Rural Banks have a significantly higher priority sector lending target compared to other commercial banks. As per the extant directions mentioned, RRBs must extend 75% of their ANBC or CEOBE (whichever is higher) to the priority sectors, ensuring a strong focus on agriculture and other specified segments.

Oct/Nov 2024

38. The committee headed by Dr. Nachiket Mor was constituted by the RBI to study 'Comprehensive Financial Services for Small Businesses and Low-Income Households'. Which two types of differentiated banks did this committee recommend setting up?

(A) Local Area Banks and Regional Rural Banks
(B) Payments Banks and Small Finance Banks
(C) Universal Banks and Cooperative Banks
(D) Wholesale Banks and Retail Banks

Ans :

(B) Payments Banks and Small Finance Banks

The Dr. Nachiket Mor Committee, in its report submitted in January 2014, proposed measures to enhance financial inclusion. A key recommendation was the creation of a new category of banks called differentiated banks. Specifically, the committee recommended the establishment of Payments Banks (PB) and Small Finance Banks (SFB) to serve the needs of specific demographic segments.

May/June 2017

39. What is the minimum paid-up capital required to set up a Payments Bank?

(A) Rs 50 crores
(B) Rs 200 crores
(C) Rs 500 crores
(D) Rs 100 crores

Ans :

(D) Rs 100 crores

Payments Banks are designed to operate on a smaller scale with a focus on payments and remittance services to promote financial inclusion. To ensure a minimum level of financial strength without being overly burdensome, the guidelines mandate a minimum paid-up capital of Rs 100 crores for entities wishing to establish a Payments Bank.

Oct/Nov 2015

40. Which of the following activities is a Payments Bank permitted to undertake?

(A) Accepting demand deposits up to Rs 2 lakhs

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(A) To foster intense competition among public sector banks within metropolitan areas by establishing specific, area-based performance metrics.
(B) To establish a structured framework for merging weaker rural banks with stronger ones to enhance systemic financial stability across districts.
(C) To designate a lead bank in each district for coordinating credit deployment and banking development.
(D) To form bank consortiums led by major public sector banks for the exclusive purpose of financing large-scale industrial and infrastructure projects.

Ans :

(C) To designate a lead bank in each district for coordinating credit deployment and banking development.
The Lead Bank Scheme was a significant step towards targeted regional development. Under this scheme, a specific bank was designated as the 'Lead Bank' for each district. Its main responsibility was to take a leading role in surveying the credit requirements of the local population, promoting banking development, and ensuring adequate credit facilities were available, especially for weaker sections.

Oct/Nov 2010

14. Following the recommendations of the Narasimham Committee on Financial Sector Reforms (1991), the banking sector was opened up for private entities. Which was the first private sector bank to be established in this post-liberalisation era in June 1994?
(A) HDFC Bank Ltd
(B) Yes Bank Ltd
(C) Kotak Bank Ltd
(D) ICICI Bank Ltd

Ans :

(D) ICICI Bank Ltd
The Narasimham Committee's recommendations led to a new phase of licensing for private banks to foster competition. Following these reforms, ICICI Bank Ltd was the first to be established in June 1994 in Vadodara. This event marked the beginning of the 'New Private Sector Banks' era, which significantly changed the landscape of Indian banking with technology and new products.

May/June 2019

15. Which of the following legislations is NOT listed as an important law affecting the establishment of banking institutions in India?
(A) The Foreign Exchange Management Act, 1999
(B) The Reserve Bank of India Act, 1934
(C) The State Bank of India Act, 1955
(D) The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970

Ans :

(A) The Foreign Exchange Management Act, 1999
While the Foreign Exchange Management Act, 1999 (FEMA) is a crucial legislation that banks must comply with for forex transactions, the provided list specifically focuses on acts that affect the establishment of banks. The listed acts like the RBI Act, SBI Act, and the Bank Nationalisation Acts directly pertain to the constitution and ownership structure of banks.

Oct/Nov 2008

16. To qualify as a Scheduled Bank, a bank must be included in the second schedule of the Reserve Bank of India Act, 1934, and its paid-up capital and raised funds must be at least:
(A) Rs 1 lakh
(B) Rs 5 lakhs
(C) Rs 1 crore
(D) Rs 5 crores

Ans :

(B) Rs 5 lakhs
The criteria for a bank to be classified as a 'Scheduled Bank' are defined in the Reserve Bank of India Act, 1934. One of the key conditions is that the bank's paid-up capital and raised funds together must not be less than Rs 5 lakhs. Meeting this and other conditions makes the bank eligible for certain privileges.

May/June 2015

17. Which of the following is NOT a category of Scheduled Commercial Banks?
(A) Public Sector Banks
(B) State Cooperative Banks
(C) Regional Rural Banks
(D) Differentiated Banks

NODIA

(C) 15%
(D) 26%

Ans :

(C) 15%
The guidelines for SFBs mandate a gradual reduction of the promoter's stake to ensure diversified ownership over time. The promoter's minimum initial contribution of 40% must be brought down to a maximum of 30% within 10 years, and further reduced to a maximum of 15% within a period of 15 years from the date of business commencement.

Oct/Nov 2009

46. What percentage of a Small Finance Bank's (SFB) credit portfolio should consist of loans and advances of up to Rs 25 lakhs?
(A) At least 25%
(B) At least 40%
(C) At least 75%
(D) At least 50%

Ans :

(D) At least 50%
To ensure that Small Finance Banks stay true to their objective of financing small borrowers, a specific portfolio-level requirement is imposed. The guidelines state that at least 50% of the SFB's total loan portfolio must be comprised of loans and advances that are up to Rs 25 lakhs in size, ensuring a focus on micro and small-scale financing.

May/June 2023

47. The Cooperative Credit Societies Act of 1904 was enacted with the objective of encouraging thrift, self-help, and cooperation among which group of people?
(A) Agriculturists, artisans, and persons of limited means.
(B) Urban industrial workers and large-scale corporate entities seeking cooperative funding.
(C) Foreign traders operating in India and expatriate communities needing financial services.
(D) Government employees and public sector undertakings looking for alternative credit sources.

Ans :

(A) Agriculturists, artisans, and persons of limited means.
The cooperative movement in India was started primarily to address the problem of rural credit. The Cooperative Credit Societies Act of 1904 explicitly aimed to establish societies that would "encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means," laying the foundation for the cooperative banking structure to serve these specific segments.

Oct/Nov 2018

48. The short-term rural cooperative credit structure in India is a three-tier federal system. Which of the following represents the correct hierarchy from the top level to the bottom?
(A) Central Cooperative Banks, State Cooperative Banks, PACS
(B) State Cooperative Banks, Central Cooperative Banks, PACS
(C) PACS, Central Cooperative Banks, State Cooperative Banks
(D) State Cooperative Banks, PACS, Central Cooperative Banks

Ans :

(B) State Cooperative Banks, Central Cooperative Banks, PACS
The short-term rural cooperative structure is federal in nature. At the apex level in each state is the State Cooperative Bank. Below it, at the district level, are the Central Cooperative Banks. At the grassroots or village level are the Primary Agricultural Credit Societies (PACS), which directly interact with the individual members.

May/June 2007

49. Which of the following institutions in the cooperative credit structure are NOT covered under the Banking Regulation Act?
(A) State Cooperative Banks
(B) Primary Agricultural Credit Societies (PACS)
(C) Central Cooperative Banks
(D) Urban Cooperative Banks

Ans :

(B) Primary Agricultural Credit Societies (PACS)
While State and Central Cooperative Banks require a license and are regulated entities, the text explicitly states that Primary Agricultural Credit Societies (PACS), which form the base of the rural cooperative credit structure at the

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village level, are not covered under the provisions of the Banking Regulation Act, 1949.

Oct/Nov 2025

50. What is the primary business focus of Urban Cooperative Banks (UCBs)?

(A) Retail banking and lending to MSMEs and individuals in non-rural locations.

(B) Wholesale and corporate banking focused on financing large industrial conglomerates and infrastructure.

(C) Specialized international trade finance and complex foreign exchange services for importers and exporters.

(D) Providing large-scale refinance facilities to rural cooperative banks and Primary Agricultural Credit Societies.

Ans :

(A) Retail banking and lending to MSMEs and individuals in non-rural locations.

Urban Cooperative Banks are predominantly engaged in retail banking. Their lending activities are primarily directed towards Micro, Small, and Medium Enterprises (MSMEs) and individual retail loans in urban and semi-urban areas. Their exposure to wholesale banking and forex is limited due to factors like their smaller balance sheet size and a lack of specialized expertise.

May/June 2012

51. While the RBI supervises the banking functions of UCBs, and NABARD supervises rural cooperative banks, the managerial aspects and certain other functions of cooperative banks fall under the purview of:

(A) The Central Government's Ministry of Finance.

(B) The Indian Banks' Association (IBA).

(C) The State Registrars of Cooperative Societies.

(D) The Deposit Insurance and Credit Guarantee Corporation (DICGC).

Ans :

(C) The State Registrars of Cooperative Societies.

Cooperative banks are subject to a dual regulatory structure. While the RBI (for UCBs) and NABARD (for rural co-ops) handle banking-related supervision, their establishment, registration, management, and elections are governed by the cooperative societies acts of their respective states. These functions are regulated by the State Registrars of Cooperative Societies, creating a multi-authority framework.

Oct/Nov 2014

52. Which of the following is a key difference between a cooperative bank and a commercial bank regarding shareholder voting rights?

(A) In a cooperative bank, voting rights are directly proportional to the number of shares held by a member.

(B) In a commercial bank, every shareholder is restricted to a single vote, irrespective of their equity stake.

(C) Neither cooperative nor commercial banks grant any voting rights to their equity shareholders as a matter of law.

(D) In a cooperative bank, a shareholder has only one vote irrespective of the number of shares held.

Ans :

(D) In a cooperative bank, a shareholder has only one vote irrespective of the number of shares held.

This difference stems from the cooperative principle of 'one member, one vote'. In a cooperative bank, a shareholder's voting power is not linked to their capital contribution; every member has an equal say with a single vote. In a commercial bank, however, the voting right of a shareholder is directly determined by the number of shares they possess.

May/June 2019

53. The amendment to which Section of the Banking Regulation Act in 2020 enabled the RBI to make a scheme for reconstruction or amalgamation of a banking company to protect depositors' interests, even without an order of moratorium?

(A) Section 3

(B) Section 56

(C) Section 45

(D) Section 7

Ans :

(C) Section 45

The amendments carried out in 2020 were aimed at giving the RBI more effective control over cooperative banks. The amendment to Section 45 of the BR Act empowered the RBI to initiate a scheme of amalgamation or reconstruction for a banking company to secure its proper

NODIA

management and protect public interest, avoiding potential disruption by acting preemptively.

Oct/Nov 2006

54. What is the term for a company that uses technology to offer financial services, potentially transforming business models, applications, processes, and products in areas like insurance, payments, and asset management?
(A) TechFin
(B) FinTech
(C) Neo Bank
(D) Digital Bank

Ans :

(B) FinTech
The term 'FinTech' is a portmanteau of 'financial technology'. It refers to an industry composed of companies that leverage digital technologies such as web, mobile, cloud services, and machine learning to offer new or modify existing financial services. Their goal is to enhance service delivery, improve customer experience, and create more efficient financial products and processes.

May/June 2021

55. How is a 'TechFin' company primarily distinguished from a 'FinTech' company?
(A) TechFins are directly regulated by the RBI as payment system operators, whereas FinTechs fall under a lighter regulatory framework.
(B) FinTechs are large technology companies expanding into finance to diversify revenue, while TechFins are finance-first companies adopting technology to improve efficiency.
(C) TechFins focus only on payment services integrated into their platforms, while FinTechs aim to offer a full range of standalone banking and investment services.
(D) TechFins are established technology firms entering finance by leveraging their existing user base and data.

Ans :

(D) TechFins are established technology firms entering finance by leveraging their existing user base and data.
The distinction lies in their origin and core business. A FinTech is fundamentally a finance-focused company built on a technological foundation. A TechFin, on the other hand, is a large, established technology company (e.g., Google, Amazon) whose primary business is not finance but which enters the financial services space by utilizing its existing platform, customer data, and technological prowess.

Oct/Nov 2010

56. What is the regulatory status of 'Neobanks' or 'digital only banks' in India?
(A) They are not regulated by the RBI and operate through tie-up arrangements with regulated banks.
(B) They are directly licensed and regulated by the RBI as a special category of banks with lighter capital adequacy norms.
(C) They are regulated by the Ministry of Electronics and Information Technology for data security and by SEBI for investment products.
(D) They are treated as Non-Banking Finance Companies (NBFCs) and are thus prohibited from accepting demand deposits.

Ans :

(A) They are not regulated by the RBI and operate through tie-up arrangements with regulated banks.
The text explicitly states that Neobanks are not directly regulated by the Reserve Bank of India. They do not hold a banking license themselves. Instead, they function by partnering with existing, licensed banks to offer financial products and services to their customers, essentially acting as a digital-first service layer on top of the traditional banking infrastructure.

May/June 2005

57. In the context of digital lending, what is the key difference between Balance Sheet Lending (BSL) and Market Place Lending (MPL)?
(A) BSL is exclusively used for long-term project financing, while MPL is designed only for short-term consumer loans.
(B) BSL is a model used only by regulated banks, whereas MPL is a model used exclusively by unregulated NBFCs.
(C) In BSL the lender carries the credit risk on its own balance sheet, while in MPL the platform primarily matches lenders with borrowers.
(D) BSL is a method for providing fully secured lending, and MPL is a platform exclusively for unsecured P2P lending.

Ans :

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the Central Government can authorize the RBI to issue?
(A) 2,000 rupees
(B) 5,000 rupees
(C) 10,000 rupees
(D) 20,000 rupees

Ans :

(C) 10,000 rupees
Section 24 of the RBI Act specifies the permissible denominations of currency notes. While it lists several denominations, it also grants the Central Government the power, on the recommendation of the RBI's Central Board, to approve other denominational values, provided they do not exceed ten thousand rupees. This sets a legal upper limit on note denominations.

May/June 2025

20. What action can the Central Government take regarding currency notes on the recommendation of the RBI's Central Board, as per Section 26 of the RBI Act?
(A) Increase the interest rate paid on currency notes to encourage public savings
(B) Mandate the use of specific currency notes for certain high-value transactions
(C) Change the design and security features of currency notes without prior public notification
(D) Declare a specific series of bank notes to be no longer legal tender after a given date

Ans :

(D) Declare a specific series of bank notes to be no longer legal tender after a given date
Section 26 of the RBI Act grants a significant power to the Central Government. Acting on a recommendation from the RBI's Central Board, the government can issue a notification to declare that any specific series of banknotes of a particular denomination will no longer be considered legal tender from a specified date, a process commonly known as demonetisation.

Oct/Nov 2011

21. According to Section 27 of the RBI Act, 1934, what is the RBI's policy on re-issuing certain types of bank notes?
(A) The RBI can re-issue any bank note after proper verification.
(B) The RBI can re-issue soiled notes after cleaning them through a mechanized process.
(C) The RBI shall not re-issue bank notes which are torn, defaced, or excessively soiled.
(D) The RBI must re-issue all bank notes returned to it to maintain circulation.

Ans :

(C) The RBI shall not re-issue bank notes which are torn, defaced, or excessively soiled.
To maintain the quality and integrity of currency in circulation, Section 27 of the RBI Act imposes a clear directive. The Reserve Bank of India is prohibited from re-issuing bank notes that are returned to it in a torn, defaced, or excessively soiled condition. Such notes are withdrawn from circulation and destroyed as per the bank's clean note policy.

May/June 2009

22. Under what circumstances can the Central Government supersede the Central Board of the RBI, as per Section 30 of the Act?
(A) If the inflation rate exceeds the target for three consecutive quarters
(B) If the RBI fails to carry out any of the obligations imposed on it by the Act
(C) If there is a disagreement between the Governor and the Finance Minister
(D) If the foreign exchange reserves fall below a predetermined level

Ans :

(B) If the RBI fails to carry out any of the obligations imposed on it by the Act
Section 30 of the RBI Act provides an exceptional power to the Central Government. If, in the opinion of the Central Government, the Reserve Bank of India fails to fulfill any of its statutory obligations under the Act, the government can, by notification, declare the Central Board to be superseded and entrust its functions to another agency.

Oct/Nov 2024

23. What must the aggregate amount of assets of the RBI's Issue Department be, according to Section 33 of the RBI Act?
(A) Equal to the total paid-up capital and reserves of the RBI
(B) Twice the amount of gold coin and gold bullion held by the RBI
(C) A fixed percentage of the country's Gross Domestic Product (GDP)

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Oct/Nov 2007

62. Which of the following statements about the National Electronic Funds Transfer (NEFT) system is incorrect?

(A) It operates in 48 half-hourly batches on a 24 × 7 × 365 basis.
(B) It can be used for one-way fund transfers to Nepal.
(C) It accepts cash for originating transactions.
(D) There is a minimum transaction amount of Rs 2 lakhs.

Ans :

(D) There is a minimum transaction amount of Rs 2 lakhs.
NEFT is a highly flexible retail payment system with several unique features. However, unlike RTGS, NEFT has no minimum or maximum transaction amount limitations (floor or ceiling) for funds transfer. The floor value of Rs 2 lakhs is a characteristic of the RTGS system, not NEFT, making this statement incorrect.

May/June 2025

63. The process by which the Clearing Corporation of India Ltd. (CCIL) becomes the central counterparty, replacing the original contract between a buyer and seller with two new contracts, is known as:

(A) Novation
(B) Settlement
(C) Clearing
(D) Netting

Ans :

(A) Novation
CCIL plays the crucial role of a Central Counter Party (CCP) to mitigate counterparty credit risk. It achieves this through a process called 'Novation'. In novation, the original contract between the two trading parties is legally replaced by two new contracts: one between the seller and CCIL, and another between CCIL and the buyer, with CCIL guaranteeing settlement.

Oct/Nov 2019

64. What is the definition of an 'On-Us' ATM transaction?

(A) A transaction carried out at an ATM of any bank other than the card-issuing bank.
(B) A transaction carried out at an ATM of the card-issuing bank.
(C) A transaction carried out at a White Label ATM (WLA).
(D) Any non-financial transaction, such as a balance inquiry, at any ATM.

Ans :

(B) A transaction carried out at an ATM of the card-issuing bank.
The terminology distinguishes between using your own bank's ATM and another bank's ATM. An 'On-Us' transaction occurs when a customer uses their debit/credit card at an ATM that belongs to the same bank that issued the card. Conversely, an 'Off-Us' transaction is one conducted at an ATM of any other bank.

May/June 2009

65. A savings bank account holder from a bank in Delhi conducts ATM transactions at other banks' ATMs in a single month as follows: 4 financial transactions in Kolkata and 2 financial transactions in a non-metro location. Based on the minimum free transaction norms, how many of these Off-Us transactions would be free of charge?

(A) 3
(B) 5
(C) 4
(D) 6

Ans :

(B) 5
The rules mandate a minimum of 3 free Off-Us transactions in metro locations (like Kolkata) and 5 free Off-Us transactions in non-metro locations. For the 4 transactions in Kolkata, the first 3 are free. The 2 transactions in the non-metro location are within the 5-transaction limit for that category and are thus free. Therefore, a total of 3 (from metro) + 2 (from non-metro) = 5 transactions are free.

Oct/Nov 2011

66. Which organization was established as an initiative of the RBI and IBA under the Payment and Settlement Systems Act, 2007, to operate retail payments and settlement systems in India?

(A) National Payments Corporation of India (NPCI)
(B) Clearing Corporation of India Ltd (CCIL)
(C) Institute for Development and Research in Banking Technology (IDRBT)
(D) Deposit Insurance and Credit Guarantee Corporation (DICGC)

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was a modest 5 crores, its financial position has grown substantially over the decades. As per the RBI's Annual Report on 31st March 2022, the total capital reserves of the bank stood at a significantly higher figure of 6,741 crores.

May/June 2016

10. According to Section 7 of the RBI Act, 1934, the Central Board of the RBI must abide by directions given by whom in the public interest?
(A) The Central Government, after consultation with the Governor
(B) The Supreme Court of India
(C) The Parliament of India
(D) The Monetary Policy Committee

Ans :

(A) The Central Government, after consultation with the Governor
Section 7 of the RBI Act entrusts the general superintendence and direction of the Bank's affairs to the Central Board. However, it also specifies that the Board is required to follow any directions issued by the Central Government in the public interest. Such directions are given after the government consults with the Governor of the RBI.

Oct/Nov 2018

11. Which of the following statements regarding the composition of the RBI's Central Board is incorrect?
(A) It consists of one Governor and not more than four Deputy Governors.
(B) It includes ten directors nominated by the Central Government from various fields.
(C) It includes four directors, one nominated from each of the Local Boards.
(D) It includes four Government officials nominated by the Central Government.

Ans :

(D) It includes four Government officials nominated by the Central Government.
The composition of the Central Board includes the Governor, up to four Deputy Governors, four directors from Local Boards, and ten directors from various fields. However, the 2012 amendment provides for the nomination of two Government officials, not four. Therefore, the statement claiming four government officials are nominated is incorrect.

May/June 2007

12. What is the maximum tenure for which the Governor and Deputy Governors of the RBI are appointed by the Central Government?
(A) Three years
(B) Five years
(C) Four years
(D) Six years

Ans :

(B) Five years
The Governor and Deputy Governors of the Reserve Bank of India are whole-time officials appointed by the Central Government. Their term of office is fixed at the time of appointment and cannot exceed a period of five years. They are, however, eligible for reappointment upon the completion of their term, providing continuity in the bank's top leadership.

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Oct/Nov 2014

13. According to Section 9 of the RBI Act, 1934, Local Boards are constituted to represent territorial and economic interests, as well as the interests of which other types of banks?
(A) Foreign banks and private sector banks
(B) Public sector banks and regional rural banks
(C) Co-operative and indigenous banks
(D) Payment banks and small finance banks

Ans :

(C) Co-operative and indigenous banks
Section 9 of the RBI Act mandates the constitution of Local Boards for four geographical territories. The primary purpose of these boards is to ensure representation of regional and economic interests. Specifically, the Act states that these members should, as far as possible, also represent the interests of co-operative and indigenous banks within their respective territories.

May/June 2019

14. As per Section 13 of the RBI Act, how often must the Central Board of the RBI hold its meetings?
(A) At least four times in each year and at least once in each half-year
(B) At least twelve times in each year, once every month
(C) At least twice in each year, once every six months
(D) At least six times in each year and at least once in each quarter

government, capital markets (by issuing bonds), and multilateral financial institutions, often with a government guarantee.

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CHAPTER 22

Banking Laws - Reserve Bank of India Act, 1934 & Banking Regulation Act, 1949

Oct/Nov 2016

1. Which two principal legislations primarily govern the functioning of the Reserve Bank of India and other banks in India?

(A) The Indian Companies Act, 1913 and the Negotiable Instruments Act, 1881

(B) The Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949

(C) The State Bank of India Act, 1955 and the Foreign Exchange Management Act, 1999

(D) The Reserve Bank (Transfer of Public Ownership) Act, 1948 and the Securitisation Act, 2002

Ans :

(B) The Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949

Banking in India is mainly governed by two key statutes: the Reserve Bank of India Act, 1934, which outlines the structure and functions of the central bank, and the Banking Regulation Act, 1949, which provides the regulatory framework for banking companies. These acts confer powers upon the RBI and the Government of India for comprehensive control over banks.

May/June 2021

2. The establishment of a central bank for India was first recommended in 1926 by which commission?

(A) The Hilton Young Commission

(B) The Simon Commission

(C) The Butler Commission

(D) The White Paper on Constitutional Reforms

Ans :

(A) The Hilton Young Commission

The genesis of the RBI Act, 1934, can be traced back to 1926 when the Royal Commission on Indian Currency and Finance, also known as the Hilton Young Commission, suggested the establishment of a central bank for India. This recommendation was a pivotal step that eventually led to the drafting and passing of the Reserve Bank of India Act.

Oct/Nov 2022

3. On what date did the Reserve Bank of India commence its business, and what was its initial paid-up capital?

(A) 1st April, 1949, with a paid-up capital of 10 crores

(B) 1st January, 1949, with a paid-up capital of 5 crores

(C) 1st April, 1935, with a paid-up capital of 5 crores

(D) 1st January, 1935, with a paid-up capital of 10 crores

Ans :

(C) 1st April, 1935, with a paid-up capital of 5 crores

Following the passage of the RBI Act in 1934, the Reserve Bank of India was set up and commenced its operations on 1st April, 1935. It began as a private bank with an initial paid-up capital of 5 crores. This marked the formal beginning of central banking in India, taking over functions previously handled by the government.

May/June 2005

4. For which of the following countries, besides undivided India, did the RBI initially function as the central bank?

(A) Nepal

(B) Sri Lanka

(C) Bhutan

(D) Burma (now Myanmar)

Ans :

(D) Burma (now Myanmar)

When the Reserve Bank of India was established, its jurisdiction extended beyond undivided India. It also functioned as the central bank for the British Colony of Burma (now known as Myanmar). The RBI ceased to be the central bank

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for Burma in 1942 after Burma was separated from the British run-state of India, highlighting its initial regional role.

Oct/Nov 2010

5. In what year did the RBI cease to supervise the banking system in Pakistan?
(A) 1947
(B) 1949
(C) 1948
(D) 1950

Ans :

(C) 1948
After the partition of India in 1947, the Reserve Bank of India initially continued to operate as the central bank for the newly formed nation of Pakistan. However, this arrangement was temporary. The RBI ceased to supervise Pakistan's banking system in 1948, with the responsibility being transferred to the newly established State Bank of Pakistan.

May/June 2012

6. The Government of India nationalised the Reserve Bank of India with effect from 1st January 1949 under which Act?
(A) The Banking Companies Act, 1949
(B) The Reserve Bank (Transfer of Public Ownership) Act, 1948
(C) The Reserve Bank of India Act, 1934
(D) The Indian Companies Act, 1913

Ans :

(B) The Reserve Bank (Transfer of Public Ownership) Act, 1948
The Reserve Bank of India was nationalised by the Government of India through the enactment of the Reserve Bank (Transfer of Public Ownership) Act, 1948. This transition took effect from 1st January 1949, converting the RBI from a privately-owned entity to a fully state-owned institution, with all its shares being transferred to the Central Government.

Oct/Nov 2025

7. According to the preamble of the RBI Act, 1934, what is the primary objective of the monetary policy to be operated by the Reserve Bank of India?
(A) To maximize foreign exchange reserves while promoting export growth
(B) To ensure the profitability of all scheduled commercial banks
(C) To exclusively manage the public debt of the Central and State Governments
(D) To maintain price stability while keeping in mind the objective of growth

Ans :

(D) To maintain price stability while keeping in mind the objective of growth
The preamble of the RBI Act, 1934, outlines the core mandate for the country's monetary policy. Its primary objective is to maintain price stability, which is crucial for a healthy economy. This must be balanced with the equally important objective of supporting economic growth, forming a dual mandate for the Reserve Bank of India's policy framework.

May/June 2023

8. The RBI Act, 1934, is divided into five chapters and two schedules. What does the Second Schedule of the Act contain?
(A) The names of banks approved to operate as Scheduled Banks
(B) A list of all nationalised banks
(C) The geographical territories for RBI's operations
(D) A list of all non-banking financial companies

Ans :

(A) The names of banks approved to operate as Scheduled Banks
As per Section 2(e) of the RBI Act, a "scheduled bank" is a bank whose name is included in the Second Schedule of the Act. This schedule lists all the banking institutions that meet the criteria set by the RBI to be classified as scheduled banks, granting them certain privileges and obligations, such as access to RBI's lending facilities.

Oct/Nov 2009

9. What was the total capital reserves of the RBI as per its Annual Report on 31st March 2022, as mentioned in the context of its paid-up capital?
(A) 5 crores
(B) 1,934 crores
(C) 6,741 crores
(D) 10,000 crores

Ans :

(C) 6,741 crores
While the initial paid-up capital of the Reserve Bank of India under Section 4 of the RBI Act

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Ans :

(A) National Payments Corporation of India (NPCI)
The National Payments Corporation of India (NPCI) was set up as an umbrella organization to manage all retail payment systems in the country. It was an initiative of the RBI and the Indian Banks' Association (IBA) created under the PSS Act, 2007, to build a robust and efficient payment infrastructure and promote both existing and innovative payment products.

May/June 2010

67. Which of the following is NOT one of the ten core promoter banks of the National Payments Corporation of India (NPCI)?
(A) State Bank of India
(B) ICICI Bank Limited
(C) Axis Bank Limited
(D) HDFC Bank Limited

Ans :

(C) Axis Bank Limited
The NPCI was founded by a consortium of ten major banks. The text lists these core promoters as State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union Bank of India, Bank of India, ICICI Bank, HDFC Bank, Citibank, and HSBC. Axis Bank is not mentioned as one of the original core promoter banks.

Oct/Nov 2024

68. Which NPCI product is an instant real-time payment system that facilitates inter-bank peer-to-peer (P2P) and person-to-merchant (P2M) transactions using a smartphone application?
(A) National Financial Switch (NFS)
(B) Aadhaar Enabled Payment System (AePS)
(C) Bharat Bill Payment System (BBPS)
(D) Unified Payments Interface (UPI)

Ans :

(D) Unified Payments Interface (UPI)
The Unified Payments Interface (UPI) is described as a revolutionary product developed by NPCI. It is an instant, real-time system that allows users to transfer funds between bank accounts seamlessly through a single mobile application. It supports both P2P and P2M transactions, and has been a major driver of digital payments growth in India.

May/June 2017

69. The National Asset Reconstruction Company Limited (NARCL) was set up to house bad loans of a certain threshold. What is the minimum size of bad loans that NARCL aims to acquire?
(A) Rs 100 crores and above
(B) Rs 250 crores and above
(C) Rs 500 crores and above
(D) Rs 1000 crores and above

Ans :

(C) Rs 500 crores and above
The provided text on recent developments specifies the objective and structure of NARCL, often referred to as the 'bad bank'. It was announced in the Union Budget 2021-22 with the specific objective to acquire and consolidate stressed assets. The text clearly states that it would house bad loans of Rs 500 crores and above from the banking system.

Oct/Nov 2005

70. The National Bank for Financing Infrastructure and Development (NaBFID) was established as a Development Financial Institution (DFI). How does its method of raising funds differ from that of a commercial bank?
(A) It primarily raises funds by accepting long-term time deposits from the general public, but is not permitted to accept demand deposits.
(B) It raises funds from the government, the market, and multilateral institutions, but does not take deposits from the public.
(C) It can only raise funds by issuing equity to public and private sector banks, which are then held in a non-transferable lock-in period.
(D) It is funded exclusively through the budget of the Reserve Bank of India, with annual allocations approved by Parliament.

Ans :

(B) It raises funds from the government, the market, and multilateral institutions, but does not take deposits from the public.
The case describes a key characteristic of a Development Financial Institution (DFI) like NaBFID. Unlike commercial banks, DFIs do not accept deposits from the general public. Instead, their funding model relies on raising large-scale, long-term funds from sources such as the

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Ans :

(D) At least six times in each year and at least once in each quarter

Section 13 of the RBI Act, 1934, stipulates the minimum frequency for the meetings of its Central Board. To ensure regular oversight and decision-making, the Board must be convened by the Governor at least six times in a calendar year. Furthermore, there must be at least one meeting held in every quarter of the year.

Oct/Nov 2006

15. In the event of an equality of votes at a Central Board meeting, who has a second or casting vote?

(A) The presiding officer (Governor or authorised Deputy Governor)
(B) The senior-most Deputy Governor present
(C) The Government official nominated to the Board
(D) The decision is referred to the Central Government

Ans :

(A) The presiding officer (Governor or authorised Deputy Governor)

Section 13 of the RBI Act specifies the procedure for meetings of the Central Board. The Governor, or in his absence, an authorized Deputy Governor, presides over the meeting. In a situation where there is a tie or an equality of votes on a matter, the presiding officer is granted a second or casting vote to break the deadlock.

May/June 2018

16. Which of the following business activities is the Reserve Bank of India explicitly prohibited from transacting under Section 19 of the RBI Act, 1934?

(A) Accepting deposits without interest from Central and State governments
(B) Granting loans upon the security of shares of any banking company
(C) Purchasing and selling foreign exchange
(D) Rediscounting bills and promissory notes for banks

Ans :

(B) Granting loans upon the security of shares of any banking company

Section 19 of the RBI Act lists several business activities that the RBI is not permitted to undertake. Among these prohibitions is the purchasing of shares of any banking or other company, or granting loans secured by such shares. This restriction is in place to avoid conflicts of interest and maintain RBI's role as an impartial regulator.

Oct/Nov 2007

17. Which statement accurately describes the RBI's role as a "Banker to State Governments" under Section 21A of the RBI Act?

(A) It is a mandatory function for all states without any agreement.
(B) The function is undertaken by agreement with the respective State Government.
(C) The RBI must pay interest on the cash balances of the State Governments.
(D) The function is limited only to the management of public debt of the states.

Ans :

(B) The function is undertaken by agreement with the respective State Government.

Unlike its role as a banker to the Central Government, the RBI's function as a banker to State Governments is not automatic. According to Section 21A of the RBI Act, this responsibility is undertaken based on a mutual agreement between the RBI and the government of a particular state, covering services like managing cash balances and public debt.

NODIA

May/June 2014

18. According to Section 22 of the RBI Act, 1934, who has the sole right to issue bank notes in India?

(A) The Reserve Bank of India
(B) The Central Government
(C) The State Bank of India
(D) The Ministry of Finance

Ans :

(A) The Reserve Bank of India

Section 22 of the RBI Act confers the exclusive right and authority to issue bank notes (currency notes) in India upon the Reserve Bank of India. The Act explicitly states that from the date of implementation of this section, the Central Government would cease to issue any currency notes, centralizing this critical function with the RBI.

Oct/Nov 2019

19. Under Section 24 of the RBI Act, what is the maximum denomination of currency notes that

(C) In BSL the lender carries the credit risk on its own balance sheet, while in MPL the platform primarily matches lenders with borrowers.
The fundamental difference lies in who bears the credit risk. In Balance Sheet Lending, the entity providing the loan holds the asset and the associated credit risk on its own books. In Market Place Lending, the platform or aggregator's main role is to connect borrowers with lenders, without intending to carry the loans on its own balance sheet.

Oct/Nov 2022

58. The payment and settlement systems in India are regulated by which Act, which came into effect on 12th August, 2008?
(A) The Payment and Settlement Systems Act, 2007
(B) The Reserve Bank of India Act, 1934
(C) The Banking Regulation Act, 1949
(D) The Negotiable Instruments Act, 1881

Ans :

(A) The Payment and Settlement Systems Act, 2007
The Payment and Settlement Systems (PSS) Act, 2007, is the principal legislation that provides for the regulation and supervision of all payment systems in India. This act empowers the Reserve Bank of India to authorize, prescribe policies, and set standards for the operation of payment systems, ensuring their safety, security, and efficiency.

May/June 2018

59. Which technology was introduced by the RBI to speed up and bring efficiency in the processing of paper-based cheques?
(A) Cheque Truncation System (CTS)
(B) High Value Clearing
(C) Speed Clearing
(D) Magnetic Ink Character Recognition (MICR)

Ans :

(D) Magnetic Ink Character Recognition (MICR)
The journey towards modernizing cheque processing began with the introduction of Magnetic Ink Character Recognition (MICR) technology. This was the first major initiative by the RBI to automate the reading and sorting of cheques, which significantly increased the speed and efficiency of the paper-based clearing process compared to the earlier manual systems.

Oct/Nov 2016

60. What is the primary purpose of the Electronic Clearing Service (ECS) Credit scheme?
(A) To handle singular, one-to-one high-value fund transfers between corporate or individual accounts.
(B) To facilitate bulk and repetitive payment requirements like salary, interest, and dividend payments.
(C) To process recurring payments from a large number of consumers to utility companies and other institutions.
(D) To clear outstation cheques at the local clearing house using digital imaging technology to avoid physical movement.

Ans :

(B) To facilitate bulk and repetitive payment requirements like salary, interest, and dividend payments.
The ECS (Credit) scheme was introduced in the 1990s specifically to address the needs of corporates and institutions for making multiple, recurring payments. It allows a single debit from the sponsor's account to trigger multiple credits to a large number of beneficiary accounts for payments such as salaries, pensions, dividends, or interest.

May/June 2014

61. Which pan-India system leverages Core Banking Solutions (CBS) to facilitate multiple credits to beneficiary accounts across the country against a single debit from a sponsor bank, irrespective of location?
(A) Regional ECS (RECS)
(B) Electronic Funds Transfer (EFT)
(C) National Electronic Clearing Service (NECS)
(D) Electronic Clearing Service (ECS) Debit

Ans :

(C) National Electronic Clearing Service (NECS)
Launched in 2008, the National Electronic Clearing Service (NECS) is a centralized system with a pan-India characteristic. It utilizes the CBS network of member banks, allowing a sponsor bank to initiate bulk credit instructions that can reach any CBS-enabled branch in the country, making it a significant upgrade over location-specific ECS systems.

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(D) Not less than the total of the liabilities of the Issue Department

Ans :

(D) Not less than the total of the liabilities of the Issue Department
Section 33 governs the assets of the RBI's Issue Department, which is responsible for currency issuance. It mandates that the total assets, consisting of gold, foreign securities, and rupee assets, must at all times be equal to or greater than the total liabilities of the department, which are primarily the currency notes in circulation.

May/June 2017

24. What is the minimum value of foreign exchange that a person is entitled to demand to buy from or sell to the RBI, as per the proviso in Section 40 of the RBI Act?
(A) 2,00,000 rupees
(B) 25,000 rupees
(C) 50,000 rupees
(D) 1,00,000 rupees

Ans :

(A) 2,00,000 rupees
Section 40 of the RBI Act obligates the RBI to buy and sell foreign exchange from any Authorised Person. However, a proviso in this section sets a threshold for such transactions. It states that no person is entitled to demand the purchase or sale of foreign exchange from the RBI for a value less than two lakh rupees (2,00,000 rupees).

Oct/Nov 2005

25. Under Section 42 of the RBI Act, what is the status regarding the minimum or maximum percentage for the Cash Reserve Ratio (CRR)?
(A) The Act specifies a minimum of 3% and a maximum of 15%.
(B) The Act specifies a minimum of 4% but no maximum.
(C) There is no mention of a minimum or maximum percentage in the Act.
(D) The Act specifies a maximum of 20% but no minimum.

Ans :

(C) There is no mention of a minimum or maximum percentage in the Act.
Section 42 empowers the RBI to stipulate the Cash Reserve Ratio (CRR) that scheduled banks must maintain. The operative provision of the Act grants the RBI full discretion to decide the percentage of Net Demand and Time Liabilities (DTL) for CRR. Crucially, the Act does not specify any floor or ceiling, giving RBI complete flexibility.

May/June 2020

26. Which of the following types of information is NOT included under the definition of "credit information" that the RBI can collect as per Sections 45A to 45G?
(A) The personal health records of the borrowers
(B) The nature and amount of loans given by a banking company
(C) The nature of security provided for credit facilities
(D) The credit worthiness and financial transaction history of borrowers

Ans :

(A) The personal health records of the borrowers
Sections 45A to 45G of the RBI Act define "credit information" broadly to include details about loans, securities, guarantees, and the financial standing of borrowers. However, this definition is strictly limited to financial matters. It does not extend to non-financial, personal information such as the health records of the borrowers, which are outside its scope.

Oct/Nov 2015

27. What is the maximum fee that the RBI can levy for furnishing credit information to a requesting banking company?
(A) 10 rupees
(B) 100 rupees
(C) 500 rupees
(D) 25 rupees

Ans :

(D) 25 rupees
The RBI Act allows the Reserve Bank to furnish credit information to a banking company upon request. While providing this service, the RBI has the discretion to levy a fee. The Act, however, places a cap on this fee, stating that the amount charged for furnishing such credit information should not exceed twenty-five rupees (25 rupees).

May/June 2013

28. Which of the following is NOT a valid exception for disclosing confidential credit information collected by the RBI?

NODIA

company's subsidiary
(D) A person whose remuneration takes the form of a share in the company's profits

Ans :

(C) A person who is a director of the banking company's subsidiary
Section 10 lists several disqualifications for employment in a banking company, including being an undischarged insolvent, having a criminal conviction for moral turpitude, or receiving profit-linked commission. However, it explicitly makes an exception for being a director of a subsidiary of the banking company, which is a permissible role under the Act.

May/June 2005

46. What is the minimum percentage of directors on a bank's board who must have professional or practical experience in fields like accountancy, finance, and law, as per the BR Act?
(A) 25%
(B) 49%
(C) 75%
(D) 51%

Ans :

(D) 51%
To ensure that the board of directors of a banking company possesses relevant expertise for sound governance, the Banking Regulation Act mandates a specific composition. It requires that not less than 51% of the total number of members on the board must be persons with professional or other practical experience in specified fields like accountancy, finance, and law.

Oct/Nov 2010

47. Section 12 of the BR Act stipulates that the paid-up capital of a banking company cannot be less than what percentage of its subscribed capital?
(A) 50%
(B) 25%
(C) 75%
(D) 100%

Ans :

(A) 50%
Section 12 of the Banking Regulation Act establishes specific ratios for a bank's capital structure to ensure financial soundness. It mandates that a banking company's subscribed capital must be at least 50% of its authorised capital, and furthermore, its paid-up capital must not be less than 50% of its subscribed capital, creating a tiered capital requirement.

May/June 2012

48. The Reserve Bank of India has the power to increase the ceiling on voting rights for a shareholder in a banking company from 10% up to what percentage in a phased manner?
(A) 15%
(B) 26%
(C) 20%
(D) 49%

Ans :

(B) 26%
To balance ownership concentration with regulatory control, Section 12 of the BR Act initially capped a single shareholder's voting rights at 10%. However, a proviso grants the Reserve Bank of India the authority to increase this ceiling on voting rights in a phased manner, allowing it to go up to a maximum of twenty-six per cent (26%).

Oct/Nov 2025

49. According to Section 17 of the BR Act, what is the minimum percentage of its annual profit that a banking company must transfer to its Reserve Fund before declaring any dividend?
(A) 10%
(B) 20%
(C) 15%
(D) 25%

Ans :

(B) 20%
Section 17 mandates the creation of a Statutory Reserve Fund to bolster a bank's financial stability. It requires every banking company, before declaring any dividend, to transfer a sum equivalent to at least 20% of its profits for the year to this Reserve Fund. This ensures that a portion of profits is consistently set aside to build reserves.

May/June 2023

50. Under Section 18 of the BR Act, which type of bank is required to maintain a cash reserve with itself or in a current account with the RBI?
(A) Every banking company, not being a scheduled bank
(B) Every scheduled bank

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"A 'Derivative' means an instrument, to be settled at a future date, whose value is derived from change in interest rate, foreign exchange rate, credit rating or credit index, price of securities (also called 'underlying'), or a combination of more than one of them..."

(A) The future profitability of the issuing company
(B) A change in one or more specified underlying variables like interest rates or security prices
(C) Government-issued sovereign guarantees
(D) The physical delivery of a commodity at a future date

Ans :

(B) A change in one or more specified underlying variables like interest rates or security prices
The definition provided from Section 45U explicitly defines a derivative as a financial instrument whose value is not inherent but is derived from changes in an underlying factor. These underlyings can be an interest rate, exchange rate, credit rating, or the price of a security. The value fluctuates based on the movement of these variables.

Oct/Nov 2017

33. Under Section 45Y of the RBI Act, if a difference of opinion arises regarding jurisdiction over a hybrid instrument, to whom is the matter referred?

(A) The Supreme Court of India, which is petitioned for a final binding judicial interpretation on the matter.
(B) A Joint Committee with representatives from the Government, RBI, SEBI, IRDA, and PFRDA.
(C) The Ministry of Finance's Department of Financial Services exclusively, which issues a final directive to the regulators.
(D) The Parliament's Standing Committee on Finance, which reviews the issue and tables a report for legislative action.

Ans :

(B) A Joint Committee with representatives from the Government, RBI, SEBI, IRDA, and PFRDA.
Section 45Y establishes a clear resolution mechanism for jurisdictional conflicts over hybrid financial instruments that involve elements regulated by multiple bodies. In case of a difference of opinion between regulators like RBI, SEBI, IRDA, or PFRDA, the issue is referred to a special Joint Committee comprising representatives from the government and all the concerned regulators.

May/June 2008

34. What provision does Section 48 of the RBI Act make regarding the taxation of the Reserve Bank of India?

(A) The RBI shall not be liable to pay income-tax or super-tax on its income, profits, or gains.
(B) The RBI is liable to pay income tax but is exempt from super-tax.
(C) The RBI's tax liability is determined annually by the Ministry of Finance.
(D) The RBI is taxed at a concertional rate of 10% on its profits.

Ans :

(A) The RBI shall not be liable to pay income-tax or super-tax on its income, profits, or gains.
Section 48 of the RBI Act, 1934, provides a statutory exemption to the central bank from direct taxation. It explicitly states that notwithstanding any provisions in the Income-Tax Act, 1961, or any other law, the RBI is not liable to pay income-tax or super-tax on any of its income, profits, or gains, reinforcing its unique status.

Oct/Nov 2013

35. What is the "Bank Rate" that the RBI is required to make public from time to time under Section 49 of the RBI Act?

(A) The average interest rate on savings deposits offered by the top five commercial banks
(B) The volume-weighted average rate for overnight inter-bank lending and borrowing (call money rate)
(C) The standard rate at which it is prepared to buy or re-discount eligible bills of exchange
(D) The benchmark prime lending rate for commercial banks' most creditworthy corporate customers

Ans :

(C) The standard rate at which it is prepared to buy or re-discount eligible bills of exchange
Section 49 defines the Bank Rate, a key monetary policy tool. It is the standard rate that the RBI publicly announces, at which it is willing to purchase or re-discount eligible instruments like bills of exchange or other commercial paper from

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(C) Any co-operative society
(D) Any individual or firm

Ans :

(A) No person other than a bank
Section 49A establishes a clear monopoly for banking institutions regarding a specific type of deposit. It states that no person other than a bank (or others specifically permitted by RBI) shall accept deposits of money that are withdrawable by cheque. This protects the integrity of the payment system and the unique function of a current/checking account.

May/June 2009

64. With effect from which date did co-operative banks come under the regulatory purview of the RBI through the introduction of Section 56 in the BR Act?
(A) 16th March, 1949
(B) 1st March, 1966
(C) 1st April, 1965
(D) 26th June, 2020

Ans :

(B) 1st March, 1966
The regulatory oversight of the RBI was extended to the co-operative banking sector through an amendment to the Banking Regulation Act in 1965. This amendment, which introduced Section 56, became effective from 1st March, 1966, bringing co-operative banks under the dual control of the State Governments (for formation and management) and the RBI (for banking regulation).

Oct/Nov 2024

65. The Banking Regulation (Amendment) Ordinance, 2020, was primarily aimed at giving more powers to the RBI for what purpose concerning Co-operative Banks?
(A) To fix interest rates on agricultural loans
(B) To restructure Co-operative Banks and frame revival plans
(C) To appoint the board of directors for all co-operative banks
(D) To merge co-operative banks with commercial banks

Ans :

(B) To restructure Co-operative Banks and frame revival plans
The 2020 amendment to the Banking Regulation Act was a significant step to strengthen the regulation of co-operative banks. It received the President's assent on 26th June 2020 and was aimed at empowering the RBI to restructure these banks, exercise more control over their management, and frame revival plans to protect the interests of depositors.

May/June 2017

66. Which of the following statements about the RBI Act, 1934, and BR Act, 1949, is incorrect?
(A) The provisions of these Acts are uniformly applicable to all banks irrespective of their constitution.
(B) The RBI Act dictates how the RBI will be organised and operate.
(C) The BR Act provides specific legislation for the business of banking in the country.
(D) The RBI Act provides the RBI with authority for supervising and regulating banks.

Ans :

(A) The provisions of these Acts are uniformly applicable to all banks irrespective of their constitution.
The legal and regulatory framework clarifies that the provisions of the RBI Act and BR Act are not uniformly applicable to all banks. The extent of applicability depends on the bank's constitution—whether it is a statutory corporation, a banking company, or a co-operative society. Different provisions apply to different types of banking institutions.

Oct/Nov 2005

67. A new private bank, 'Future Bank Ltd.', has its Board of Directors where 10 out of 20 members are experts in fields like law, economics, and accountancy. Does this board composition comply with the Banking Regulation Act, 1949?
(A) Yes, because 50% of the board has the required professional experience.
(B) Yes, because the Act does not specify any percentage for board composition.
(C) No, because the Act requires not less than 51% of the board to have such experience.
(D) No, because the Act requires 100% of the board to have professional experience.

Ans :

(C) No, because the Act requires not less than 51% of the board to have such experience.

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listed on a recognized stock exchange.

Ans :

(A) No, because it accepts deposits merely for financing its own manufacturing business.
The explanation to Section 5 of the Banking Regulation Act makes a crucial distinction. A company engaged in manufacturing or trade that accepts public deposits solely for financing its own business is not deemed to be transacting the business of banking. Therefore, MetalWorks Ltd. would not be classified as a "banking company" under this Act.

Oct/Nov 2023

41. According to Section 5(b) of the Banking Regulation Act, 1949, "banking" is defined as accepting deposits of money from the public for which primary purpose?
(A) For safe custody only
(B) For government infrastructure projects
(C) For the purpose of lending or investment
(D) For trading in the stock market

Ans :

(C) For the purpose of lending or investment
Section 5(b) provides the legal definition of "banking". It defines it as the act of accepting, for the purpose of lending or investment, deposits of money from the public. These deposits are repayable on demand or otherwise and can be withdrawn by various means like cheque or draft. This dual purpose is central to the definition.

May/June 2010

42. Which of the following activities is a permissible form of business for a banking company under Section 6 of the BR Act, 1949?
(A) Buying, selling, and dealing in bullion and specie
(B) Directly engaging in the buying and selling of goods
(C) Bartering goods for other companies
(D) Holding any immovable property indefinitely

Ans :

(A) Buying, selling, and dealing in bullion and specie
Section 6 of the Banking Regulation Act provides an extensive list of businesses that a banking company can undertake in addition to core banking. This list includes activities like buying, selling, and dealing in bullion and specie (money in coin form), which is a traditional banking-related activity, unlike direct trading in general goods.

Oct/Nov 2016

43. According to Section 7 of the BR Act, 1949, which word must be used as part of the name of any company carrying on the business of banking in India?
(A) Corporation
(B) Finance
(C) Limited
(D) Bank, banker, or banking

Ans :

(D) Bank, banker, or banking
To ensure clarity for the public and regulators, Section 7 of the Act imposes a specific naming convention. It stipulates that every company engaged in the business of banking in India must use one of the words 'bank', 'banker', or 'banking' as part of its name. Conversely, no company other than a banking company can use these words.

May/June 2021

44. As per Section 9 of the BR Act, 1949, for how long can a banking company hold any immovable property acquired, excluding property for its own use?
(A) For a maximum of 5 years
(B) For a maximum of 7 years
(C) For a maximum of 10 years
(D) Indefinitely, with RBI permission

Ans :

(B) For a maximum of 7 years
Section 9 places a restriction on banks holding immovable property to prevent them from engaging in real estate speculation. A banking company is prohibited from holding any immovable property, howsoever acquired (e.g., through loan recovery), for more than seven years from the date of its acquisition. Property for the bank's own use is exempt from this rule.

Oct/Nov 2022

45. Which of the following persons is NOT disqualified from being employed by a banking company under Section 10 of the BR Act?
(A) A person who has been adjudicated insolvent
(B) A person who has been convicted by a criminal court for an act of moral turpitude
(C) A person who is a director of the banking

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(A) Disclosure made by a bank with prior permission of the RBI.
(B) Disclosure to media outlets for investigative journalism.
(C) Publication by a bank for the benefit of public interest.
(D) Disclosure as per practice and usage customary among bankers.

Ans :

(B) Disclosure to media outlets for investigative journalism.
While credit information collected under the chapter is generally confidential, the Act provides specific exceptions. These include disclosure with RBI's permission, publication in the public interest, or as per customary banking practices. Disclosing such confidential financial data to media outlets for journalistic purposes is not listed as a permissible exception and would breach confidentiality rules.

Oct/Nov 2021

29. Based on the text describing Section 45-IA of the RBI Act, what are the two primary conditions a company must fulfill to commence business as a non-banking financial company (NBFC)?
i. Obtain a certificate of registration from SEBI.
ii. Have a minimum net owned fund of twenty-five lakh rupees or as specified by RBI.
iii. Obtain a certificate of registration from the RBI.
iv. Be listed on a recognized stock exchange.
(A) (i) and (ii)
(B) (ii) and (iv)
(C) (ii) and (iii)
(D) (i) and (iv)

Ans :

(C) (ii) and (iii)
Section 45-IA clearly outlines two mandatory prerequisites for any entity to start operations as an NBFC. First, it must obtain a certificate of registration from the Reserve Bank (RBI). Second, it must have a minimum net owned fund of 25 lakh rupees, a limit which the RBI can increase.

May/June 2024

30. Match the Sections of the RBI Act related to NBFCs in List-I with their corresponding particulars in List-II.

	List-I (Section)		**List-II (Particulars)**
P.	45 IB	1.	Power and Duty of Auditors
Q.	45 IC	2.	Maintenance of percentage of assets
R.	45 L	3.	Reserve Funds
S.	45 MA	4.	Power of the bank to ccall for information

(A) P-2, Q-3, R-4, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-2, Q-3, R-4, S-1
The provided information clearly maps the sections to their functions for NBFCs. Section 45 IB deals with the maintenance of a percentage of assets. Section 45 IC relates to the creation of Reserve Funds. Section 45 L grants the RBI power to call for information, and Section 45 MA outlines the power and duty of auditors.

Oct/Nov 2008

31. According to Section 45S of the RBI Act, who is prohibited from accepting deposits if their business includes activities specified in clause (c) of section 45I?
(A) An individual, a firm, or an unincorporated association of individuals
(B) Any public limited company
(C) Any scheduled commercial bank
(D) Any cooperative society

NODIA

Ans :

(A) An individual, a firm, or an unincorporated association of individuals
Section 45S specifically targets unincorporated bodies to regulate the acceptance of deposits. It prohibits any person who is an individual, a firm, or an unincorporated association of individuals from accepting any deposit if their business, wholly or partly, involves financial activities as defined in the Act, thereby bringing them under regulatory scrutiny.

May/June 2006

32. As per the definition provided under Section 45U of the RBI Act, what does a "Derivative" instrument's value derive from?

(C) Every foreign bank
(D) Every cooperative bank

Ans :

(A) Every banking company, not being a scheduled bank
While scheduled banks maintain their CRR with the RBI under the RBI Act, Section 18 of the Banking Regulation Act addresses the reserve requirements for other banks. It specifically states that every banking company that is not a scheduled bank must maintain a cash reserve, either with itself or in an RBI current account.

Oct/Nov 2009

51. Which of the following is a permissible reason for a banking company to establish a subsidiary company, according to Section 19 of the BR Act?
(A) To undertake related financial services like real estate and property management.
(B) To engage in large-scale manufacturing and export of non-financial goods.
(C) To conduct banking business exclusively outside India, with prior RBI approval.
(D) To invest in high-risk speculative trading activities using proprietary funds.

Ans :

(C) To conduct banking business exclusively outside India, with prior RBI approval.
Section 19 generally restricts banking companies from forming subsidiaries. However, it provides specific exceptions. One such exception is the establishment of a subsidiary to conduct banking business exclusively in a foreign country. This requires obtaining prior written permission from the Reserve Bank of India, allowing for controlled international expansion of Indian banks.

May/June 2016

52. Assertion (A): A banking company is prohibited from granting any loans or advances on the security of its own shares.
Reason (R): Granting loans against its own shares can lead to a reduction in the bank's capital and can be used to artificially inflate the share price.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Section 20 of the BR Act explicitly prohibits a bank from lending against its own shares. The reason for this prohibition is a core principle of prudence. Such lending could erode the bank's capital base if the borrower defaults, and it creates a potential for market manipulation, thus justifying the assertion with the provided reason.

Oct/Nov 2018

53. Under Section 21 of the BR Act, the RBI can determine the policy on advances for banks. Which of the following aspects can the RBI direct banks on?
i. The purpose for which advances may be granted.
ii. The margins to be maintained in respect of secured advances.
iii. The maximum amount of advances to a single entity.
iv. The rate of interest to be charged on advances.
(A) Only (i) and (iv)
(B) Only (ii) and (iii)
(C) Only (i), (ii) and (iv)
(D) All (i), (ii), (iii) and (iv)

Ans :

(D) All (i), (ii), (iii) and (iv)
Section 21 grants the RBI comprehensive power to control the lending activities of banking companies in the public interest or the interest of depositors. The Act specifies that RBI's directions can cover a wide range of aspects, including the purpose of the loan, margin requirements, maximum lending quantum, and the applicable rate of interest.

May/June 2007

54. Which of the following is NOT a condition the RBI needs to be satisfied with before granting a banking license under Section 22?
(A) The company possesses adequate capital structure and positive earning prospects.
(B) The company has a minimum of 100 branches ready for immediate operation.
(C) The company's proposed management will not be prejudicial to the public or depositor interest.
(D) The company is in a position to pay its current and future depositors in full as their

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claims accrue.

Ans :

(B) The company has a minimum of 100 branches ready for immediate operation.
Section 22 lists several stringent conditions for granting a banking license, focusing on financial health, depositor protection, management quality, and public interest. It does not, however, prescribe a pre-requisite of having a minimum number of branches ready for operation. The focus is on viability and soundness, not the initial scale of physical presence.

Oct/Nov 2014

55. A bank wishes to open a temporary branch for 20 days to provide services at a large trade exhibition. The bank already has a permanent branch in the same city. Does the bank need prior permission from the RBI for this temporary branch?
(A) Yes, because prior RBI permission is mandatory for any new place of business, temporary or permanent.
(B) Yes, because opening a branch at a commercial exhibition requires a special, separate license.
(C) No, but the bank must close its existing city branch for the duration to avoid overlapping operations.
(D) No, as it's a temporary branch for less than a month where another branch already exists.

Ans :

(D) No, as it's a temporary branch for less than a month where another branch already exists.
Section 23 of the BR Act allows for an exception to the rule of requiring prior RBI permission for new branches. A bank can open a temporary branch for a maximum of one month for an event like an exhibition, conference, or 'mela', provided it already operates a branch in that city, town, or village.

May/June 2019

56. The Statutory Liquidity Ratio (SLR) under Section 24 of the BR Act requires banks to maintain a reserve in cash, gold, or unencumbered approved securities. The Act specifies this reserve shall not exceed what percentage of total DTL?
(A) 40%
(B) 20%
(C) 25%
(D) There is no maximum limit specified.

Ans :

(A) 40%
Section 24, which governs the Statutory Liquidity Ratio (SLR), empowers the RBI to mandate that banks maintain a certain percentage of their Demand and Time Liabilities (DTL) in liquid assets. The provision specifies that this stipulated percentage shall not exceed 40%, thereby setting an upper ceiling on the SLR that the RBI can impose.

Oct/Nov 2006

57. According to Section 26 of the BR Act, a banking company must submit a return to the RBI for accounts that have not been operated upon for how many years?
(A) 5 years
(B) 7 years
(C) 10 years
(D) 12 years

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Ans :

(C) 10 years
Section 26 deals with unclaimed deposits. It mandates that every banking company must, within 30 days after the close of each calendar year, submit a return to the RBI detailing all accounts in India that have been inactive or not operated upon for a period of ten years. For term deposits, this period starts after maturity.

May/June 2018

58. The amounts from accounts that have remained unclaimed for more than 10 years are credited to which fund established by the RBI under Section 26A?
(A) The Depositor Education and Awareness Fund
(B) The Prime Minister's Relief Fund
(C) The Consolidated Fund of India
(D) The Bank's General Reserve Fund

Ans :

(A) The Depositor Education and Awareness Fund
Section 26A of the Banking Regulation Act directs the RBI to establish a specific fund for managing unclaimed deposits. This fund is named the "Depositor Education and Awareness Fund". Banks are required to transfer the credit balances from accounts that have been inoperative for ten or more years to this dedicated fund.

Oct/Nov 2007

59. What was the purpose of invoking Sections 35AA and 35AB of the BR Act when the RBI commenced its Asset Quality Review (AQR) in 2015?

(A) To allow banks a one-time write-off of all non-performing assets below a certain threshold.
(B) To provide a framework for additional capital infusion into banks from the Central Government.
(C) To temporarily supersede the boards of directors of all public sector banks with poor performance.
(D) To direct banks to start insolvency proceedings against specific large defaulters.

Ans :

(D) To direct banks to start insolvency proceedings against specific large defaulters.
Sections 35AA and 35AB were specifically added to the BR Act to empower the RBI to address the issue of stressed assets more effectively. These sections were invoked during the Asset Quality Review (AQR) to give the RBI the authority to direct banks to initiate insolvency proceedings under the Insolvency and Bankruptcy Code, 2016, for specific large defaulters.

May/June 2014

60. Under Section 36ACA of the BR Act, for what maximum total period can the RBI extend the supersession of a bank's Board of Directors?

(A) 6 months
(B) 12 months
(C) 18 months
(D) 24 months

Ans :

(B) 12 months
Section 36ACA allows the RBI, in consultation with the Central Government, to supersede a bank's Board of Directors for an initial period not exceeding six months. This period of supersession can be extended, but the Act imposes a limit, stating that the total period of supersession cannot exceed twelve months, after which a new board must be constituted.

Oct/Nov 2019

61. Mr. Sharma holds a savings account jointly with his wife. He wants to ensure that in the event of the death of both account holders, the balance goes to his son, Rohan. Which section of the BR Act governs this nomination facility?

(A) Section 45ZC
(B) Section 45ZE
(C) Section 45ZA
(D) Section 35A

Ans :

(C) Section 45ZA
The nomination facility for deposit accounts is specifically covered under Section 45ZA of the Banking Regulation Act. This section allows a depositor, or joint depositors, to nominate one person to whom the deposit amount will be returned in the event of the death of the sole depositor or all joint depositors, ensuring smooth succession.

May/June 2025

62. Consider the following provisions related to nomination:

1. Section 45ZA: Pertains to deposits held by a banking company.
2. Section 45ZC: Pertains to articles left in safe custody.
3. Section 45ZE: Pertains to the contents of a safe deposit locker.

An individual, who is the sole hirer of a locker, wishes to nominate a person to have access to it after his death. Which section is applicable?

(A) Section 45ZA
(B) Section 45ZC
(C) Section 45ZE
(D) Both Section 45ZC and 45ZE

Ans :

(C) Section 45ZE
The Banking Regulation Act clearly differentiates the nomination facilities. Section 45ZA is for bank deposits, and Section 45ZC is for articles in safe custody. Section 45ZE specifically deals with safe deposit lockers, allowing a sole hirer to nominate a person to whom the bank can give access to the locker and its contents upon the hirer's death.

Oct/Nov 2011

63. According to Section 49A of the BR Act, 1949, who is restricted from accepting deposits of money withdrawable by cheque?

(A) No person other than a bank
(B) Any Non-Banking Financial Company (NBFC)

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banks. This rate signals the central bank's long-term interest rate stance to the financial system.

May/June 2015

36. Which of the following states and union territories fall under the 'Western Area' of RBI's operations as per Schedule One of the RBI Act?
(A) Andhra Pradesh, Karnataka, Tamil Nadu, and Kerala
(B) Assam, Bihar, West Bengal, and Orissa
(C) Punjab, Haryana, Rajasthan, and Uttar Pradesh
(D) Goa, Gujarat, Madhya Pradesh, and Maharashtra

Ans :

(D) Goa, Gujarat, Madhya Pradesh, and Maharashtra
Schedule One of the RBI Act demarcates the country into four operational territories. The Western Area is specified to consist of the States of Goa, Gujarat, Madhya Pradesh, and Maharashtra, along with the Union Territories of Dadra and Nagar Haveli and Daman and Diu, for the purpose of the RBI's organisational structure and local board representation.

Oct/Nov 2012

37. Which of the following is NOT listed as a salient feature of the Banking Regulation Act, 1949?
(A) Prescription of minimum capital standards
(B) Provision for an expeditious procedure for liquidation
(C) Mandating the nationalization of all private sector banks
(D) Prohibition of non-banking companies from accepting deposits repayable on demand

Ans :

(C) Mandating the nationalization of all private sector banks
The Banking Regulation Act, 1949, includes several salient features, including setting capital standards, rules for liquidation, and prohibiting non-banking entities from certain activities. However, the Act itself does not mandate the nationalization of banks. The nationalization of banks in India was carried out through separate government actions and ordinances, not as a feature of this Act.

May/June 2011

38. The Banking Regulation Act, 1949, came into force on which date?
(A) 1st April, 1935
(B) 16th March, 1949
(C) 1st January, 1949
(D) 1st March, 1966

Ans :

(B) 16th March, 1949
The Banking Regulation Act, 1949, which provides the comprehensive legal framework for regulating banking in India, was enacted and came into force on 16th March, 1949. Originally named the Banking Companies Act, it was later renamed and has been amended several times to address the evolving needs of the country's financial system and economy.

Oct/Nov 2020

39. The Banking Regulation Act, 1949, does not apply to which of the following entities?
(A) Regional Rural Banks
(B) Foreign Banks operating in India
(C) State Bank of India and its subsidiaries
(D) Primary agricultural credit societies

Ans :

(D) Primary agricultural credit societies
While the Banking Regulation Act, 1949, extends to the whole of India and applies to most banking institutions including certain cooperative societies, Section 1 explicitly excludes some entities. The Act is not applicable to a primary agricultural credit society or a co-operative land mortgage bank, which are governed by different cooperative society laws.

May/June 2022

40. A manufacturing company, 'MetalWorks Ltd.', is engaged in producing steel utensils. To finance its working capital, it accepts deposits from the public. According to the explanation to Section 5 of the BR Act, 1949, would 'MetalWorks Ltd.' be considered a "banking company"?
(A) No, because it accepts deposits merely for financing its own manufacturing business.
(B) Yes, because it accepts deposits from the public, which is a core banking function.
(C) Yes, because any company that accepts deposits from the public is automatically deemed a banking company.
(D) No, because it is not a public limited company

NODIA

The BR Act specifies that the board of directors of a banking company must include "not less than 51%" of members with professional or practical experience in specified fields. In this case, only 50% (10 out of 20) of the directors meet this criterion, which is below the statutory minimum. Therefore, the board composition does not comply.

May/June 2020

68. "Every banking company shall create a Reserve Fund...and before declaring any dividend, transfer to it at least 20% of its profit each year. When the amount in the reserve fund together with the amount in the share premium account equals the paid-up capital, then...the Central Government on the recommendation of the Reserve Bank, can allow a banking company not to transfer the stipulated 20% of profit..."
When can a bank be exempted from transferring 20% profit to the Reserve Fund?
(A) After the bank has been consistently profitable for five consecutive fiscal years.
(B) Once the Statutory Reserve Fund alone becomes equal to the total paid-up capital.
(C) After getting a special resolution passed by its shareholders in an Annual General Meeting.
(D) When the Reserve Fund plus share premium equals paid-up capital, with Central Govt. approval.

Ans :

(D) When the Reserve Fund plus share premium equals paid-up capital, with Central Govt. approval.
Section 17 clearly states the condition for this exemption. A banking company can be allowed to stop the mandatory 20% profit transfer only when the combined total of its Reserve Fund and its share premium account becomes equal to its paid-up capital. Even then, it requires an explicit allowance from the Central Government.

Oct/Nov 2015

69. A non-scheduled bank has total Demand and Time Liabilities (DTL) of Rs. 500 crore as on the last Friday of the second preceding fortnight. As per Section 18 of the BR Act, what is this bank required to do?
(A) Transfer 20% of this amount to the Statutory Reserve Fund.
(B) Invest this entire amount in government securities to meet SLR.
(C) Maintain a certain percentage of this DTL as a cash reserve with itself or RBI.
(D) Report this amount to SEBI for market analysis.

Ans :

(C) Maintain a certain percentage of this DTL as a cash reserve with itself or RBI.
Section 18 of the Banking Regulation Act specifically deals with the cash reserve requirements for non-scheduled banks. It mandates that such banks must maintain a cash reserve, calculated as a percentage of their DTL as on a specific date, either by holding it as cash with themselves or by keeping it in a current account with the RBI.

May/June 2013

70. Arrange the following events in the correct chronological order of their occurrence:
i. The Banking Regulation Act was made applicable to co-operative banks.
ii. The Reserve Bank of India commenced its business.
iii. The Royal Commission on Indian Currency and Finance suggested a central bank.
iv. The Reserve Bank of India was nationalised.
(A) (iii), (ii), (iv), (i)
(B) (ii), (iii), (iv), (i)
(C) (iii), (iv), (ii), (i)
(D) (i), (iii), (ii), (iv)

Ans :

(A) (iii), (ii), (iv), (i)
The correct historical sequence is: (iii) The Royal Commission's suggestion in 1926; (ii) RBI commencing business on April 1, 1935; (iv) RBI's nationalization on January 1, 1949; and (i) The BR Act's application to co-operative banks from March 1, 1966. This order follows the timeline of the development of central banking and its regulation in India.

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CHAPTER 23

Development Financial Institutions

May/June 2016

1. What is the primary purpose of Development Financial Institutions (DFIs) as distinguished from commercial banks?

(A) To mobilise short-term resources, primarily customer deposits, for consumer lending and personal credit lines.

(B) To provide long-term credit for infrastructure and industrial projects to foster capital formation.

(C) To exclusively offer working capital finance and trade credit to support the operational needs of various economic sectors.

(D) To focus on retail lending, such as personal loans, mortgages, and credit cards, for individual household customers.

Ans :

(B) To provide long-term credit for infrastructure and industrial projects to foster capital formation.
DFIs, also known as Development Banks, were established to bridge the gap left by commercial banks, which primarily mobilise short-term deposits and are thus limited in their ability to provide long-term loans. DFIs specialise in offering long-term credit essential for infrastructure projects and industrial growth, thereby contributing significantly to capital formation and sustained economic development.

Oct/Nov 2009

2. Which institution was the first Development Financial Institution (DFI) established in India in 1948?

(A) Industrial Finance Corporation of India (IFCI)

(B) Industrial Credit and Investment Corporation of India (ICICI)

(C) Industrial Development Bank of India (IDBI)

(D) State Financial Corporations (SFCs)

Ans :

(A) Industrial Finance Corporation of India (IFCI)
The evolution of DFIs in India began post-independence to direct resources to preferred sectors. The first DFI to be established was the Industrial Finance Corporation of India (IFCI) in 1948. This was a pioneering step to cater to the long-term finance demands of the industrial sector, followed by the establishment of State Financial Corporations (SFCs) in 1951.

May/June 2023

3. In which year was the definition of the term 'financial institution' made precise and comprehensive through an amendment to Section 45-I (c) of the RBI Act?

(A) 1948

(B) 1956

(C) 1974

(D) 1964

Ans :

(C) 1974
Although the Reserve Bank of India was granted powers to regulate financial institutions in 1964 under the newly inserted Chapter IIIB of the RBI Act, the definition of the term 'financial institution' itself was not precise. It was only in 1974 that an amendment to Section 45-I (c) of the RBI Act made the definition both precise and comprehensive.

Oct/Nov 2018

4. Which of the following institutions was established in 1982 with its functions carved out of the Industrial Development Bank of India (IDBI)?

(A) Small Industries Development Bank of India (SIDBI)

(B) National Housing Bank (NHB)

(C) Tourism Finance Corporation of India (TFCI)

(D) Export Import Bank of India (EXIM Bank)

Ans :

(D) Export Import Bank of India (EXIM Bank)

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A significant number of financial institutions were established after 1974. The Export Import Bank of India (EXIM Bank) was set up in 1982, and its functions were specifically carved out from the operations of the Industrial Development Bank of India (IDBI). Similarly, SIDBI was also later carved out of IDBI in 1989 to focus on the small-scale sector.

May/June 2007

5. Which set of institutions are primarily refinancing institutions that also possess a regulatory and supervisory role?
(A) IFCI, IDBI, and ICICI
(B) EXIM Bank, PFC, and IRFC
(C) SIDBI, NABARD, and NHB
(D) LIC, GIC, and UTI

Ans :

(C) SIDBI, NABARD, and NHB
While most Development Financial Institutions (DFIs) are involved in extending direct finance, some have a distinct role. Institutions like the Small Industries Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD), and National Housing Bank (NHB) primarily function as refinancing institutions, providing indirect finance. They also have a significant regulatory and supervisory role in their respective sectors.

Oct/Nov 2025

6. Which of the following was NOT identified as a gap in the post-independence financial system that led to the establishment of DFIs?
(A) Commercial banks abstained from providing long-term finance.
(B) An overabundance of underwriting firms leading to intense competition.
(C) Investor apathy towards the capital market due to malpractices.
(D) Managing agency houses showed reluctance to invest in risky ventures.

Ans :

(B) An overabundance of underwriting firms leading to intense competition.
The post-independence financial system had several gaps that necessitated the creation of DFIs. These included the focus of commercial banks on short-term working capital, investor distrust in capital markets, and the risk aversion of managing agency houses. A key gap was a limited number of issue houses and underwriting firms, not an overabundance of them.

May/June 2012

7. Which of the following is a primary objective of Development Financial Institutions?
(A) To focus solely on generating high returns from short-term money market investments and speculative trading activities.
(B) To primarily serve as a depository for individual savings and offer basic retail banking services like checking accounts.
(C) To compete directly with commercial banks in providing short-term working capital and overdraft facilities to businesses.
(D) To foster rapid industrialisation, particularly in the private sector, to create employment.

Ans :

(D) To foster rapid industrialisation, particularly in the private sector, to create employment.
The objectives of DFIs are broad and development-oriented. A key objective is to foster rapid industrialisation, especially within the private sector, to boost production and generate employment opportunities. This aligns with their broader goals of accelerating economic growth, promoting rural development, financing infrastructure, and developing entrepreneurial skills, filling gaps left by traditional commercial banks.

Oct/Nov 2014

8. According to the classification of DFIs, which of the following falls under the category of 'Investment Institutions'?
(A) Life Insurance Corporation of India (LIC)
(B) Industrial Finance Corporation of India (IFCI)
(C) National Bank for Agriculture and Rural Development (NABARD)
(D) State Financial Corporations (SFCs)

Ans :

(A) Life Insurance Corporation of India (LIC)
Development Financial Institutions are classified into four main categories. These are Development Banks (e.g., IDBI, IFCI), Specialised Financial Institutions (e.g., NABARD, EXIM Bank), State-Level Financial Institutions (e.g., SFCs, SIDCs), and Investment Institutions. The Life Insurance Corporation of India (LIC) and Unit Trust of India

NODIA

(UTI) are categorised as Investment Institutions within this framework.

May/June 2019

9. Which of the following was NOT a form of preferential access to funding for DFIs in their initial phase?

(A) Access to low-cost funds from the National Industrial Credit-Long-term Operations (NIC-LTO) window of RBI.

(B) Exclusive rights to channelise multilateral funding lines from international agencies like the World Bank.

(C) Permission to raise funds from the public through short-term fixed deposits, similar to commercial banks.

(D) Authority to issue Statutory Liquidity Ratio (SLR) eligible and tax-saving bonds to raise capital.

Ans :

(C) Permission to raise funds from the public through short-term fixed deposits, similar to commercial banks.

DFIs were provided with significant government support and preferential access to medium and long-term resources. This included government equity, funds from RBI's NIC-LTO window, issuance of SLR and tax-saving bonds, and intermediating ECBs. They did not, however, have access to short-term public deposits, which remained the primary domain of commercial banks during that era.

Oct/Nov 2006

10. The concept of 'Universal Banking' in the Indian context, as recommended by the Narasimham Committee of 1998, primarily involved:

(A) Enabling banking institutions to extend long-tenure loans while also engaging in commercial and retail finance.

(B) Mandating a strict separation where DFIs focus exclusively on long-term finance and commercial banks only on short-term finance.

(C) The mandated merger of all DFIs into a single, large government-owned development bank to consolidate resources.

(D) The mandatory conversion of all commercial banks into Development Financial Institutions to solely support industrial projects.

Ans :

(A) Enabling banking institutions to extend long-tenure loans while also engaging in commercial and retail finance.

The Narasimham Committee of 1998 recommended that DFIs should evolve into areas like commercial banking. This led to the emergence of the 'Universal Banking' concept, where institutions could offer a wide range of financial services. It allowed banking institutions to undertake long-term financing, which was a DFI domain, while also continuing with their traditional short-term commercial and retail finance activities.

May/June 2021

11. What significant change was made to the constitution of IFCI in 1991 to aid in raising funds directly through capital markets?

(A) It was merged with the Industrial Development Bank of India (IDBI) to consolidate national development financing efforts.

(B) Its authorised capital was reduced to its initial amount of ₹10 crores to restructure its debt-heavy balance sheet.

(C) It was converted into a specialised bank for financing only small and medium enterprises (SMEs), shifting its core mandate.

(D) It was changed from a statutory corporation to a company under the Indian Companies Act, 1956.

Ans :

(D) It was changed from a statutory corporation to a company under the Indian Companies Act, 1956.

The liberalisation of the Indian economy in 1991 brought significant changes to the financial system. To enable the Industrial Finance Corporation of India (IFCI) to raise funds directly from the capital markets, its constitution was altered. It was transformed from a statutory corporation into a company registered under the Indian Companies Act, 1956, and later renamed IFCI Limited.

Oct/Nov 2010

12. The authorised share capital of IFCI was increased from its initial ₹10 crores to what amount by the Industrial Finance Corporation (Amendment) Act, 1986?

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(A) ₹50 crores
(B) ₹250 crores
(C) ₹100 crores
(D) ₹500 crores

Ans :

(B) ₹250 crores
The Industrial Finance Corporation of India (IFCI) was established with an initial authorised share capital of only ₹10 crores. To augment its resource base and expand its operations, the Industrial Finance Corporation (Amendment) Act of 1986 was passed, which increased its authorised capital significantly to ₹250 crores, reflecting its growing role in industrial finance.

May/June 2005

13. Which of the following is NOT a fund-based financial service offered by IFCI?
(A) Equipment finance, equipment credit, and direct project loans for capital expenditure.
(B) Underwriting of public issues of shares and debentures for corporate clients.
(C) Guarantees for loans and issuance of letters of credit on behalf of clients.
(D) Working capital term loans and instalment credit for operational needs.

Ans :

(C) Guarantees for loans and issuance of letters of credit on behalf of clients.
IFCI's financial activities include a range of fund-based and fee-based services. Fund-based products involve the direct outlay of funds, such as equipment finance, equipment credit, working capital term loans, and underwriting. In contrast, guarantees and letters of credit are fee-based services, where IFCI provides a commitment without an immediate cash outflow, earning a fee for the service.

Oct/Nov 2022

14. Which of the following institutions was NOT founded or developed with the instrumental support of IFCI?
(A) Management Development Institute (MDI)
(B) Investment and Credit Rating Agency (ICRA)
(C) Tourism Finance Corporation of India (TFCI)
(D) Credit Rating Information Services of India Ltd (CRISIL)

Ans :

(D) Credit Rating Information Services of India Ltd (CRISIL)
IFCI played a crucial promotional role in establishing several reputed institutions. It founded and developed the Management Development Institute (MDI), the Investment and Credit Rating Agency (ICRA), and the Tourism Finance Corporation of India (TFCI). CRISIL, however, was promoted by ICICI in association with the Unit Trust of India (UTI), not by IFCI.

May/June 2018

15. In its repositioned role, IFCI has focused on being a mid-corporate specialist targeting which specific sector?
(A) Small and Medium Enterprises (SMEs)
(B) Large infrastructure and power projects
(C) Agriculture and rural development
(D) International trade and export finance

Ans :

(A) Small and Medium Enterprises (SMEs)
Over the years, with changes in the financial landscape, IFCI has adapted its strategy. It has now repositioned itself as a mid-corporate specialist. Its primary focus is on targeting small and medium enterprises (SMEs), offering a range of services including asset financing, IPO management, loan syndication, and project advisory services tailored to the needs of this sector.

Oct/Nov 2016

16. Assertion (A): IFCI was converted from a statutory corporation into a company under the Companies Act in 1991.
Reason (R): The conversion was intended to enable IFCI to raise funds directly through capital markets following the economic liberalisation.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that IFCI was converted into a company in 1991 is a factual statement. The reason provided, which is to facilitate direct

payment terms to their buyers. The manufacturer could discount the bills with their bank, which in turn could rediscount them with IDBI, thus improving liquidity.

Oct/Nov 2017

34. An aspiring first-generation entrepreneur has a viable project idea and the necessary technical skills but lacks the financial resources to contribute the required promoter's equity. Which specific indirect assistance scheme launched by IDBI in 1976 would be most suitable to support this entrepreneur?
(A) Soft Loan Scheme
(B) Technical Development Fund Scheme
(C) Seed Capital Assistance Scheme
(D) Rediscounting of Bills Scheme

Ans :

(C) Seed Capital Assistance Scheme
The scenario describes a classic case for which the Seed Capital Assistance Scheme was designed. This scheme, launched by IDBI in September 1976, was specifically aimed at supporting first-generation entrepreneurs who possessed the requisite skills for a project but did not have the necessary financial resources to meet the promoter's contribution or seed capital requirements.

May/June 2008

35. What major transformation did the erstwhile IDBI undergo on October 1, 2004?
(A) It was fully privatized and its entire stake was sold to a consortium of foreign banks.
(B) It was merged completely into the State Bank of India to create a single public sector financial behemoth.
(C) It was converted into a banking company, IDBI Ltd., to undertake universal banking activities.
(D) It was dissolved and its assets and liabilities were proportionately transferred to IFCI and ICICI.

Ans :

(C) It was converted into a banking company, IDBI Ltd., to undertake universal banking activities.
Following the trend of DFIs moving towards universal banking, a significant change occurred on October 1, 2004. The erstwhile IDBI was converted into a banking company, named IDBI Ltd. This transformation allowed it to undertake the entire gamut of banking activities, including retail and corporate banking, while still continuing to perform its developmental finance role.

Oct/Nov 2013

36. Match the IDBI scheme in List-I with its corresponding year of introduction in List-II.
List-I (Scheme)
P. Rediscounting of Bills Scheme
Q. Special scheme for industrialisation of backward areas
R. Soft Loan Scheme
S. Seed Capital Assistance Scheme
List-II (Year)
1. 1976 (September)
2. 1976
3. 1965
4. 1969
Code:
(A) P-3, Q-4, R-2, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-1, S-2

Ans :

(A) P-3, Q-4, R-2, S-1
The Rediscounting of Bills scheme (P) was introduced in 1965 (3). The special scheme for backward areas (Q) was introduced in 1969 (4). The Soft Loan Scheme (R) was introduced in 1976 (2). The Seed Capital Assistance Scheme (S) was launched in September 1976 (1). Therefore, the correct matching code is P-3, Q-4, R-2, S-1.

May/June 2015

37. The Small Industries Development Bank of India (SIDBI) was established in 1990 as a subsidiary of which institution?
(A) Reserve Bank of India (RBI)
(B) Industrial Finance Corporation of India (IFCI)
(C) Industrial Development Bank of India (IDBI)
(D) State Bank of India (SBI)

Ans :

(C) Industrial Development Bank of India (IDBI)
SIDBI was set up in 1990 under the SIDBI Act of 1989 as the principal financial institution for the MSME sector. At its inception on April 2, 1990, it was established as a subsidiary of the Industrial Development Bank of India (IDBI).

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New York Stock Exchange (NYSE), marking its integration with the global economy.

May/June 2009

21. The merger of ICICI Ltd. with ICICI Bank in March 2002 led to the creation of what significant entity in the Indian financial system?
(A) The first specialized housing finance company with a national reach.
(B) The first government-owned commercial bank formed through a merger.
(C) The first universal bank in India, offering a full range of financial services.
(D) The first credit rating agency in India promoted by a DFI.

Ans :

(C) The first universal bank in India, offering a full range of financial services.
The discussions around universal banking in the late 1990s culminated in a landmark event. In March 2002, ICICI Ltd. merged with its subsidiary, ICICI Bank. This strategic move created the first universal bank in India, an entity capable of offering a wide spectrum of financial services, from long-term project finance to retail banking, under one roof.

Oct/Nov 2011

22. Identify the INCORRECT statement regarding the objectives of ICICI.
(A) To assist in the creation, growth, and modernisation of business enterprises in the non-public sector.
(B) To primarily focus on providing finance to public sector undertakings and government projects.
(C) To stimulate private ownership of industrial entities and assist in the expansion of markets.
(D) To provide finance for the rehabilitation of industrial units.

Ans :

(B) To primarily focus on providing finance to public sector undertakings and government projects.
The major objective of ICICI was to meet the permanent and long-term funding needs of the private sector. It aimed to assist enterprises in the non-public sector, stimulate private ownership, and finance industrial rehabilitation. The statement that it primarily focused on public sector undertakings is incorrect, as its core mandate was to support the private industry.

May/June 2010

23. In which year did ICICI establish its Merchant Banking Division to advise clients on raising finances and restructuring?
(A) 1955
(B) 1982
(C) 1994
(D) 1973

Ans :

(D) 1973
ICICI expanded its functions over time to provide more comprehensive services to its clients. In 1973, it established a Merchant Banking Division. The purpose of this division was to advise its corporate clients on crucial matters such as raising finances in suitable forms, restructuring their financial structures, and navigating amalgamation proposals, thereby adding a significant advisory dimension to its operations.

Oct/Nov 2024

24. Which of the following institutions was promoted by ICICI to provide long-term finance to individuals for housing?
(A) Housing Development Finance Corporation (HDFC)
(B) National Housing Bank (NHB)
(C) LIC Housing Finance Ltd
(D) SIDBI

Ans :

(A) Housing Development Finance Corporation (HDFC)
ICICI played a promotional role in the establishment of several key institutions. Among them, it promoted the Housing Development Finance Corporation (HDFC). The specific objective of HDFC was to provide long-term finance to individuals, particularly those in middle- and lower-income groups, for the construction and purchase of residential homes, addressing a critical need in the country.

May/June 2017

25. "In 1982, the ICICI gave a new dimension to its Merchant Banking Division, by offering to provide counselling for industrial investments in India, to Non-Resident Indians."
Based on the provided text, what new service

NODIA

did ICICI's Merchant Banking Division begin offering in 1982?
(A) Underwriting services for public issues.
(B) Direct loans for industrial projects.
(C) Investment counselling for Non-Resident Indians.
(D) Project advisory services to the private sector.

Ans :

(C) Investment counselling for Non-Resident Indians.
The provided source explicitly states that in 1982, ICICI enhanced the role of its Merchant Banking Division. The new dimension added was the provision of counselling services specifically targeted at Non-Resident Indians (NRIs) to guide them on making industrial investments in India. This was a strategic move to attract foreign capital and investment from the Indian diaspora.

Oct/Nov 2005

26. Statement I: ICICI was established primarily to provide long-term project financing to public sector businesses.
Statement II: ICICI transformed from a project-finance institution to a diversified financial services provider in the 1990s.
(A) Statement I is correct and Statement II is incorrect.
(B) Statement I is incorrect and Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Ans :

(B) Statement I is incorrect and Statement II is correct.
Statement I is incorrect because ICICI's principal objective was to provide financing to Indian businesses in the private sector, not the public sector. Statement II is correct; with the liberalisation of the financial sector in the 1990s, ICICI indeed transformed its business from a pure project finance institution to a diversified financial services provider with a wide range of products.

May/June 2020

27. When the Industrial Development Bank of India (IDBI) was established in 1964, what was its organizational structure?
(A) A state-owned autonomous corporation with an independent board.
(B) A private sector development bank funded by industrial houses.
(C) A joint venture between the Government of India and the World Bank.
(D) A wholly owned subsidiary of the Reserve Bank of India.

Ans :

(D) A wholly owned subsidiary of the Reserve Bank of India.
In order to accelerate industrial development and coordinate the functions of various financial institutions, the IDBI was established in 1964. At its inception, it was set up as a wholly owned subsidiary of the Reserve Bank of India, which was tasked with overseeing its functions as an apex institution for industrial finance in the country.

Oct/Nov 2015

28. On what date was the ownership of IDBI transferred from the RBI to the Central Government, changing its structure to a state-owned autonomous corporation?
(A) July 1, 1964
(B) February 16, 1976
(C) October 1, 2004
(D) March 31, 1995

Ans :

(B) February 16, 1976
Initially a subsidiary of the RBI, the organizational structure of IDBI was changed a decade after its formation. On February 16, 1976, the ownership of IDBI was transferred from the Reserve Bank of India to the Central Government. This move transformed it into a state-owned autonomous corporation, giving it a different operational and governance framework.

May/June 2013

29. Following an amendment to the IDBI Act in 1994, the government's stake was reduced to 72% after its first Initial Public Offer (IPO) in 1995. What was the approximate amount raised through this IPO?
(A) ₹500 crores
(B) ₹1,000 crores
(C) More than ₹2,000 crores
(D) ₹5,000 crores

Ans :

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(C) More than ₹2,000 crores

The IDBI Act was amended in 1994 to permit public ownership up to 49%. Subsequently, in 1995, IDBI launched its first initial public offer (IPO). This public issue was highly successful, raising more than ₹2,000 crores and consequently reducing the government's shareholding in the institution to 72%, marking a significant step towards its corporatization.

Oct/Nov 2021

30. Which of the following is NOT listed as a main function of IDBI?

(A) To act as an apex institution and co-ordinate activities of other DFIs.
(B) To grant direct loans and advances to industrial concerns.
(C) To provide refinance to financial institutions and scheduled banks.
(D) To conduct statutory inspections of commercial banks under the Banking Regulation Act.

Ans :

(D) To conduct statutory inspections of commercial banks under the Banking Regulation Act.

IDBI's main functions included acting as an apex coordinating body, providing direct loans, offering refinance to other institutions, and providing technical assistance. However, conducting statutory inspections of commercial banks is a primary function of the Reserve Bank of India (RBI), not IDBI. IDBI's focus was on industrial development finance, not commercial bank regulation.

May/June 2024

31. Under its Project Finance Assistance scheme, what forms of direct assistance did IDBI extend to industrial concerns?

(A) Project loans, underwriting of shares/ debentures, and guarantee for loans.
(B) Providing short-term working capital and trade finance facilities only.
(C) Offering retail banking services like personal loans to employees of industrial concerns.
(D) Managing foreign exchange reserves and currency trading operations for the government.

Ans :

(A) Project loans, underwriting of shares/ debentures, and guarantee for loans.

As part of its direct assistance operations, IDBI's Project Finance Assistance scheme was comprehensive. It provided direct aid to industrial concerns not just through one method, but in multiple forms. These included extending project loans, subscribing to or underwriting issues of shares and debentures, and also providing guarantees for loans and deferred payments to support new and existing projects.

Oct/Nov 2008

32. The Soft Loan Scheme was introduced by IDBI in 1976 for the modernisation of units in which of the following selected industries?

(A) Information Technology, Telecom, and Pharmaceuticals.
(B) Cement, Cotton textiles, Jute, and Sugar.
(C) Automobiles, Aviation, and Shipping.
(D) Food processing, Leather goods, and Handicrafts.

Ans :

(B) Cement, Cotton textiles, Jute, and Sugar.

In 1976, IDBI launched the Soft Loan Scheme to provide financial assistance for the modernization of specific traditional industries. The scheme targeted product units in sectors such as cement, cotton textiles, jute, sugar, and certain engineering industries. This scheme was implemented by IDBI with financial participation from both IFCI and ICICI to support these core sectors.

May/June 2006

33. What was the purpose of IDBI's Rediscounting of Bills scheme, introduced in 1965?

(A) To provide direct working capital to industrial units.
(B) To help indigenous machinery manufacturers and their purchasers.
(C) To finance the import of foreign machinery.
(D) To provide seed capital to first-generation entrepreneurs.

Ans :

(B) To help indigenous machinery manufacturers and their purchasers.

The Rediscounting of Bills scheme, an indirect financing mechanism introduced by IDBI in 1965, was designed to support the domestic capital goods industry. It enabled indigenous machinery manufacturers to offer deferred

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fundraising from capital markets, is the precise rationale behind this constitutional change. The economic liberalisation of 1991 necessitated this move, so the reason correctly explains the assertion.

May/June 2014

17. A foreign manufacturing company wants to set up a production unit in India. It requires comprehensive assistance, including help with obtaining government clearances, information on local markets and manpower, and syndication services for capital. Which DFI was specifically noted for providing such a wide range of services to prospective foreign investors?
(A) SIDBI
(B) NABARD
(C) IFCI
(D) NHB

Ans :

(C) IFCI
The case describes a need for extensive corporate advisory services for a foreign investor. The text explicitly states that IFCI provided a whole range of services to prospective foreign investors. This included facilitating business entities, coordinating government approvals, providing inputs on markets and materials, and offering syndication services for capital, matching the requirements outlined in the scenario perfectly.

Oct/Nov 2007

18. ICICI was established in 1955 at the initiative of which three parties?
(A) The World Bank, Government of India, and representatives of Indian industry.
(B) The Reserve Bank of India, Government of India, and Indian commercial banks.
(C) The International Monetary Fund, State Governments, and private entrepreneurs.
(D) The Asian Development Bank, Government of India, and the London Stock Exchange.

Ans :

(A) The World Bank, Government of India, and representatives of Indian industry.
The establishment of the Industrial Credit and Investment Corporation of India (ICICI) in 1955 was a collaborative effort. It was set up at the initiative of the World Bank, the Government of India, and representatives of the Indian industry. This partnership was aimed at creating a development financial institution to provide project financing to Indian businesses.

May/June 2025

19. What was the primary gap that ICICI was created to fill, which was not being adequately addressed by IFCI and SFCs?
(A) Providing short-term working capital finance to meet the day-to-day operational expenses of industrial units.
(B) Offering loans and financial assistance specifically designated for the agricultural and allied rural sectors.
(C) Providing underwriting facilities to enterprises to help them raise funds from capital markets.
(D) Financing large-scale, government-owned public sector undertakings and national infrastructure projects.

Ans :

(C) Providing underwriting facilities to enterprises to help them raise funds from capital markets.
While IFCI and State Financial Corporations (SFCs) focused on lending activities, they largely stayed away from underwriting and investing in businesses. This created a problem for emerging enterprises in raising funds from the capital market. ICICI was established specifically to fill this gap by providing considerable underwriting facilities, thereby accelerating industrial development in the private sector.

Oct/Nov 2019

20. In what year did ICICI become the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the New York Stock Exchange (NYSE)?
(A) 1994
(B) 2002
(C) 2004
(D) 1999

Ans :

(D) 1999
As India's economy became more market-oriented, ICICI capitalized on new opportunities. A major milestone in its history was achieved in 1999 when it became the first Indian company and the first financial institution from non-Japan Asia to have its shares listed on the prestigious

NODIA

It commenced operations by taking over the outstanding portfolio and activities of IDBI that pertained to the small-scale sector.

Oct/Nov 2012

38. Besides financing, what are the other three basic roles SIDBI plays for the orderly growth of the MSME sector?

(A) Regulation, Supervision, and Auditing
(B) Promotion, Development, and Coordination
(C) Marketing, Exporting, and Importing
(D) Mergers, Acquisitions, and Divestments

Ans :

(B) Promotion, Development, and Coordination
The charter of SIDBI envisages a multifaceted role beyond just providing finance. For the orderly growth and development of the Micro, Small, and Medium Enterprise (MSME) sector, SIDBI has been playing four basic roles. These are financing (providing credit), promotion (encouraging new enterprises), development (enhancing capabilities), and coordination (liaising with other institutions engaged in similar activities).

May/June 2011

39. Which of the following is NOT a function of SIDBI?

(A) Refinancing loans extended by Primary Lending Institutions (PLIs) to MSMEs.
(B) Discounting and rediscounting bills of the MSME sector.
(C) Offering services like factoring and leasing to industrial concerns in the MSME sector.
(D) Providing refinance support to State Cooperative Banks for financing seasonal agricultural operations.

Ans :

(D) Providing refinance support to State Cooperative Banks for financing seasonal agricultural operations.
SIDBI's functions are centered on the MSME sector, including providing direct and indirect finance, refinancing loans from PLIs, and offering various financial services. Providing refinance support to State Cooperative Banks for seasonal agricultural operations is a primary function of the National Bank for Agriculture and Rural Development (NABARD), not SIDBI, which focuses on the industrial sector.

Oct/Nov 2020

40. What is the key objective of SIDBI's indirect finance or refinancing schemes?

(A) To raise the resource position of the Primary Lending Institutions (PLIs).
(B) To directly lend to large corporate clients.
(C) To manage the foreign exchange reserves of the country.
(D) To provide microfinance directly to individual entrepreneurs.

Ans :

(A) To raise the resource position of the Primary Lending Institutions (PLIs).
SIDBI offers indirect assistance by providing refinance to Primary Lending Institutions (PLIs) such as banks and State Level Financial Institutions. The key objective of these refinancing schemes is not to lend directly but to augment the resource position of these PLIs. This, in turn, enables a greater and smoother flow of credit to the MSME sector.

May/June 2022

41. Types of Direct Finance Extended by SIDBI

Loan Scheme	Loan Amount	Loan Tenure
SIDBI Make in India Soft Loan Fund for MSMEs (SMILE)	Minimum loan size - ₹10 lakh for Equipment Finance and Minimum Loan Size for Others - ₹25 lakhs	Up to 10 years, including 3-year moratorium

Based on the table, what is the maximum loan tenure for a loan taken under the SMILE scheme?

(A) Up to 5 years
(B) Up to 72 months
(C) Up to 10 years
(D) Depends on the financial appraisal

Ans :

(C) Up to 10 years
The provided table clearly outlines the features of various direct finance schemes offered by SIDBI. For the "SIDBI Make in India Soft Loan Fund for MSMEs (SMILE)" scheme, the 'Loan Tenure' column specifies that the loan is available for a period of up to 10 years, which includes a moratorium period of 3 years.

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Ans :

(A) Reserve Bank of India (RBI)
NABARD was created as an apex institution by consolidating functions related to rural credit. It was established by taking over the entire operations of the Agricultural Refinance and Development Corporation (ARDC). Additionally, it also absorbed the refinancing functions of the Reserve Bank of India (RBI) that were related to state cooperative banks and Regional Rural Banks (RRBs).

May/June 2014

59. What important tool does NABARD prepare each year to act as a guide for credit planning by banks at the district level?
(A) Annual Financial Stability Report for rural banking institutions.
(B) State-wise Infrastructure Development and Gap Analysis Reports.
(C) National Agricultural Policy and Five-Year Strategy Document.
(D) District Level Potential Linked Credit Plans for banking sector guidance.

Ans :

(D) District Level Potential Linked Credit Plans for banking sector guidance.
Besides its refinancing role, NABARD acts as a key coordinator in planning for rural credit. To facilitate this, NABARD prepares district-level potential linked credit plans each year. These plans serve as a crucial guide for banks in their credit planning for the upcoming year by estimating the credit potential and highlighting infrastructural gaps at the district level.

Oct/Nov 2007

60. Under which function does NABARD conduct statutory inspections of State Cooperative Banks (StCBs) and Regional Rural Banks (RRBs)?
(A) Credit Function
(B) Supervisory Function
(C) Promotional and Developmental Function
(D) Institutional Development Function

Ans :

(B) Supervisory Function
NABARD is vested with significant oversight responsibilities. Under its supervisory function, it conducts statutory inspections of State Cooperative Banks (StCBs), District Central Cooperative Banks (DCCBs), and Regional Rural Banks (RRBs) as per the provisions of Section 35 of the Banking Regulation Act, 1949. These inspections help ensure the financial health and regulatory compliance of these institutions.

May/June 2025

61. Loans made available to state governments from which fund are managed by NABARD and fall under Section 30 of the NABARD Act, 1981?
(A) Cooperative Development Fund (CDF)
(B) Tribal Development Fund (TDF)
(C) Rural Infrastructure Development Fund (RIDF)
(D) Producer Organisations Development Fund (PODF)

NODIA

Ans :

(C) Rural Infrastructure Development Fund (RIDF)
Section 30 of the NABARD Act allows it to make loans and advances to approved institutions for periods not exceeding twenty-five years. As per the Act, loans from the Rural Infrastructure Development Fund (RIDF) are made available to state governments under this category. This fund is crucial for financing infrastructure projects in rural areas across the country.

Oct/Nov 2019

62. Assertion (A): NABARD provides refinance assistance for the conversion of short-term crop production loans into medium-term loans.
Reason (R): This facility is extended to help farmers affected by natural calamities like floods and droughts.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion correctly states a credit function of NABARD. The reason provided is the exact purpose for this function. When farmers are unable to repay short-term crop loans due to natural calamities, NABARD provides refinance to banks to convert these loans into medium-term loans, thus providing relief to the affected

their initial stages of setting up manufacturing and services.

Ans :

(D) To provide financial backing to start-ups in their initial stages of setting up manufacturing and services.
SIDBI offers several additional products to support the enterprise ecosystem. The 'Aspire Fund' has a specific focus. It is designed to provide crucial financial backing to start-ups that are in the initial stages of their journey, particularly those setting up new manufacturing and service-based enterprises. This fund helps bridge the early-stage funding gap for new ventures.

May/June 2007

47. An MSME unit, which is an existing borrower of SIDBI, is facing a severe liquidity crunch due to the Corona crisis. It needs immediate working capital support to revitalize its operations. The unit's total outstanding loan with SIDBI is ₹1 crore. Which SIDBI scheme would be most appropriate, and what is the maximum assistance it can get?
(A) SAFE PLUS scheme, up to ₹100 lakh.
(B) TWARIT scheme, up to ₹20 lakh.
(C) TULIP scheme, up to ₹2 crore.
(D) STAR scheme, up to ₹2.5 crore.

Ans :

(B) TWARIT scheme, up to ₹20 lakh.
The scenario describes a need for immediate working capital support due to the Corona crisis for an existing borrower. The TWARIT (Timely Working Capital Assistance to Revitalise Industries in Times of Corona Crisis) scheme was designed for this purpose, offering assistance of up to 20% of the total outstanding loans with SIDBI. With an outstanding loan of ₹1 crore, the maximum assistance available is 20% of this amount, which equals ₹20 lakh.

Oct/Nov 2025

48. The Export-Import Bank of India (Exim Bank) commenced its operations in March 1982, following the passage of the Exim Bank Act in which year?
(A) 1978
(B) 1981
(C) 1980
(D) 1982

Ans :

(B) 1981
The establishment of the Exim Bank was a structured process. The Export-Import Bank of India Act, which provided the legal framework for its creation, was passed by the Parliament in September 1981. Following the enactment of this legislation, the bank formally commenced its operations in March 1982 to promote India's foreign trade.

May/June 2012

49. What was the dominant viewpoint regarding economic growth in India during the fifties and early sixties, which led to the export sector being neglected?
(A) Export expansion was the only viable engine for economic growth, superseding domestic industry.
(B) Expansion in domestic demand alone could realistically serve as the primary engine for national growth.
(C) Industrial development was not a priority for the government, which focused solely on agriculture.
(D) Agricultural exports should be prioritized over all manufactured goods to earn foreign exchange.

Ans :

(B) Expansion in domestic demand alone could realistically serve as the primary engine for national growth.
In the post-independence period of the 1950s and early 1960s, the prevailing economic thought was that India's growth should be driven by domestic demand. It was believed that export expansion opportunities were limited due to various constraints. This viewpoint resulted in the export sector being relatively neglected, with a focus on an import substitution strategy for industrial development.

Oct/Nov 2014

50. Which of the following is NOT a principal function of the Exim Bank?
(A) Providing refinance services to banks for their financing of purely domestic trade and commerce.
(B) Financing the direct import and export of goods and services from India and to other countries.

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Oct/Nov 2023

5. The Integrated Rural Development Programme (IRDP) was initiated in 1980-81 with what primary objective?
(A) To nationalise commercial banks.
(B) To establish Regional Rural Banks.
(C) To direct subsidised loans to poor self-employed people.
(D) To create Self Help Groups through NGO activities.

Ans :

(C) To direct subsidised loans to poor self-employed people.
The government initiated the Integrated Rural Development Programme (IRDP) in 1980-81 as a key poverty alleviation measure. Its main objective was to provide subsidised loans to poor self-employed individuals through the banking sector. This program aimed to enable the rural poor to acquire income-generating assets, thereby improving their economic condition and fostering self-reliance.

May/June 2018

6. Which organisation was one of the pioneers in promoting the concept of Self Help Groups (SHGs) and started linking them with banks in 1984-85?
(A) NABARD
(B) MYRADA
(C) RBI
(D) Grameen Bank

Ans :

(B) MYRADA
The Mysore Resettlement and Development Authority (MYRADA) was a pioneering non-government organisation in the Indian microfinance movement. In 1984-85, MYRADA began linking Self Help Groups with banks, facilitating access to formal credit for the poor. This initiative marked a significant step in the evolution of the SHG model and the beginning of the modern microfinance movement in India.

Oct/Nov 2011

7. When did NABARD formally launch the SHG-Bank Linkage Programme with guidelines for financing SHGs under a pilot project?
(A) 1982
(B) 1985
(C) 1996
(D) 1992

Ans :

(D) 1992
The third and modern phase of the microfinance movement was marked by the formal launch of the SHG-Bank Linkage Programme by NABARD in 1992. This initiative started as a pilot project aiming to finance 500 SHGs across the country through the banking system, providing a structured framework and guidelines for banks to engage with these groups.

May/June 2007

8. In what year did the RBI encourage banks to include financing of SHGs as a mainstream activity under priority sector lending?
(A) 1996
(B) 1992
(C) 1993
(D) 2010

Ans :

(A) 1996
Following the initial success of the SHG-Bank Linkage Programme launched by NABARD, the Reserve Bank of India provided a major impetus to the movement in 1996. It encouraged banks to treat financing of Self Help Groups as a mainstream banking activity by including it under their priority sector lending mandates, thereby significantly scaling up credit flow to SHGs.

Oct/Nov 2025

9. The Andhra Pradesh (AP) microfinance crisis of 2010 was primarily attributed to which factor?
(A) A significant downturn in the demand for micro-credit services from rural households.
(B) Strict government restrictions that prevented the formation of new, competitive MFIs.
(C) Irrational exuberance and unethical recovery practices by some MFIs.
(D) The widespread failure of the SHG-Bank Linkage Programme to deliver credit effectively.

Ans :

(C) Irrational exuberance and unethical recovery practices by some MFIs.
The 2010 microfinance crisis in Andhra Pradesh was a result of certain inadequacies that emerged as the sector grew. It was largely attributed to

NODIA

export credit provided by Indian commercial banks.

Ans :

(B) To pro-actively assist Indian exporting firms in locating suitable overseas distributors and business partners.
The Marketing Advisory Services (MAS) Group of Exim Bank plays a promotional role to enhance the export capabilities of Indian companies. A key function of this group is to proactively support Indian firms in their globalization efforts by helping them locate suitable overseas distributors, buyers, or partners for their products and services, leveraging the bank's international network.

May/June 2005

55. Consider the following statements about Exim Bank's products and services:
1. The 'Buyers Credit' facility can be used to finance the import of goods from any country.
2. The 'Corporate Banking' service provides 360-degree support to export-oriented units.
3. The 'Research and Analysis Group (RAG)' prepares exposure limits for countries of business interest to the Bank.

Which of the above statements is/are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(B) 2 and 3 only
Statement 1 is incorrect; buyer's credit from Exim Bank can only be used for the export of Indian goods or services. Statement 2 is correct, as Corporate Banking provides comprehensive support to export-oriented units. Statement 3 is also correct, as the RAG's functions include preparing country exposure limits for the bank's business.

Oct/Nov 2022

56. An Indian construction company is bidding for a large, multilaterally funded metro rail project in India. The project requires complex financial structuring and support for engineering and procurement. Which specific product of Exim Bank is designed to provide funded and non-funded facilities for such activities?
(A) Lines of Credit
(B) Overseas Investment Finance
(C) Project Exports
(D) Buyers Credit

Ans :

(C) Project Exports
The case describes a scenario involving an engineering, procurement, and construction (EPC) project, which may involve international competitive bidding and multilateral funding. Exim Bank's 'Project Exports' product is specifically designed to provide a steady stream of support for such activities, offering both funded and non-funded facilities for civil engineering, construction projects, turnkey projects, and related supplies.

May/June 2018

57. NABARD was established in July 1982 based on the recommendations of which committee?
(A) Narasimham Committee on Financial System Reforms.
(B) Rangarajan Committee on Financial Inclusion.
(C) Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD).
(D) Sub-Group on Housing Finance for the Seventh Five Year Plan.

Ans :

(C) Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD).
The establishment of a broad-based apex organization for rural development was proposed to guide credit institutions. The National Bank for Agriculture and Rural Development (NABARD) was set up following the recommendations of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), which was headed by Shri B Sivaraman.

Oct/Nov 2016

58. Upon its formation, NABARD took over the functions of the Agricultural Refinance and Development Corporation (ARDC) and the refinancing functions of which other institution?
(A) Reserve Bank of India (RBI)
(B) Industrial Development Bank of India (IDBI)
(C) State Bank of India (SBI)
(D) Life Insurance Corporation of India (LIC)

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Oct/Nov 2023

42. Under the SIDBI SPEED PLUS scheme, what is the maximum loan amount available for an existing customer of SIDBI?
(A) ₹3 crores
(B) ₹1 crore
(C) ₹2 crores
(D) ₹5 crores

Ans :

(A) ₹3 crores
The SPEED PLUS scheme (SIDBI-Loan for Purchase of Equipment for Enterprise's Development Plus) offers different loan limits for new and existing customers. For existing customers of SIDBI, the scheme allows for financing up to 100% of the machinery cost, subject to a higher maximum loan amount of up to ₹3 crores, facilitating larger investments in equipment.

May/June 2016

43. What is the repayment period for a loan availed under the SIDBI Assistance to Facilitate Emergency Response Against Coronavirus Plus (SAFE PLUS) scheme?
(A) Repayable in monthly instalments over a period of up to 5 years.
(B) Repayable over a period of up to 4 years including a 1-month moratorium.
(C) Repayable in equated monthly instalments over a period of 72 months.
(D) Repayable in instalments over a short period of 4-months.

Ans :

(D) Repayable in instalments over a short period of 4-months.
The various schemes offered by SIDBI have different tenures based on their purpose. The SAFE PLUS scheme, designed for emergency response to the Coronavirus pandemic with a loan amount up to ₹100 lakh, has a very short repayment period. The loan taken under this specific scheme is repayable over 4-months.

Oct/Nov 2009

44. SIDBI's assistance to Small Finance Banks (SFBs) under its indirect finance schemes primarily focuses on what?
(A) Providing direct working capital loans to the individual customers of SFBs.
(B) Providing refinance support to strengthen their equity and overall resource base.
(C) Mandatorily taking significant equity stakes in all newly licensed SFBs.
(D) Regulating the day-to-day operational activities and branch expansion of SFBs.

Ans :

(B) Providing refinance support to strengthen their equity and overall resource base.
Under its indirect finance initiatives, SIDBI has a specific scheme to support Small Finance Banks (SFBs). The primary objective of this scheme is to strengthen the equity and resource base of the SFBs. By providing them with refinance support, SIDBI helps these banks to enhance their lending capacity to the MSME sector, which is their common area of focus.

May/June 2023

45. Which of the following is NOT one of the three main schemes under SIDBI's Micro-Lending initiatives?
(A) Micro-Lending Development
(B) Responsible Finance Initiatives
(C) Fund of Funds for Start-ups
(D) Beyond Microfinance

Ans :

(C) Fund of Funds for Start-ups
SIDBI's micro-lending initiatives are structured under three main schemes: Micro-Lending Development (for institution creation), Responsible Finance Initiatives (promoting right lending practices), and Beyond Microfinance (graduating entrepreneurs to larger loans). The 'Fund of Funds for Start-ups' is a separate, additional product from SIDBI aimed at supporting Alternate Investment Funds (AIFs) that invest in innovation-driven start-ups.

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Oct/Nov 2018

46. What is the primary focus of the 'Aspire Fund', an additional product offered by SIDBI?
(A) To provide large, equity-based investments in mature, established firms within the MSME sector.
(B) To refinance long-term infrastructure loans originally given by commercial banks to large industries.
(C) To help micro-entrepreneurs graduate from microfinance to larger ticket size loans for business expansion.
(D) To provide financial backing to start-ups in

farmers. The reason perfectly explains the assertion.

May/June 2009

63. Which of the following is an Institutional Development function of NABARD?
(A) Providing policy, financial, and technical support to rural credit cooperatives.
(B) Conducting statutory inspection of Regional Rural Banks.
(C) Providing grant support for watershed development programmes.
(D) Providing refinance support to State Cooperative Banks for seasonal agricultural operations.

Ans :

(A) Providing policy, financial, and technical support to rural credit cooperatives.
NABARD's functions are distinct. Providing refinance for agricultural operations is a credit function, grant support for watershed programs is a promotional function, and inspections are a supervisory function. The institutional development function specifically involves providing policy, financial (e.g., through the Cooperative Development Fund), and technical support to strengthen rural credit cooperatives and improve their functioning.

Oct/Nov 2011

64. The National Housing Bank (NHB) was established on July 9, 1988, based on the recommendations of a High-Level Group headed by whom?
(A) Shri B Sivaraman
(B) Dr. C. Rangarajan
(C) M. Narasimham
(D) The Prime Minister of India

Ans :

(B) Dr. C. Rangarajan
The proposal for a national-level housing finance institution was examined by a High-Level Group set up by the Committee of Secretaries. This group was under the Chairmanship of Dr. C. Rangarajan, who was the then Deputy Governor of the RBI. The group's recommendation to set up the National Housing Bank (NHB) was accepted, leading to its establishment.

May/June 2010

65. What significant change occurred in the ownership of the National Housing Bank (NHB) in the year 2019?
(A) It was listed on the national stock exchange through a large Initial Public Offering (IPO).
(B) The Reserve Bank of India divested its share, making it fully owned by the Government of India.
(C) It was acquired by a leading private sector housing finance company to expand its portfolio.
(D) A stake of 51% was sold to the State Bank of India to form a strategic partnership.

Ans :

(B) The Reserve Bank of India divested its share, making it fully owned by the Government of India.
The National Housing Bank was initially set up with its entire paid-up capital contributed by the Reserve Bank of India. However, a major change in its ownership structure took place in 2019. In that year, the RBI divested its complete shareholding in NHB. As a result, the bank is now fully owned by the Government of India (GOI).

Oct/Nov 2024

66. As per the recent developments mentioned in the text, what are the respective roles of NHB and RBI concerning Housing Finance Companies (HFCs)?
(A) NHB is the supervisor and RBI is the regulator.
(B) NHB is the regulator and RBI is the supervisor.
(C) Both regulation and supervision are done exclusively by NHB.
(D) Both regulation and supervision are done exclusively by RBI.

Ans :

(A) NHB is the supervisor and RBI is the regulator.
The regulatory framework for Housing Finance Companies (HFCs) has evolved. According to the recent developments cited, there is a clear demarcation of roles. While the National Housing Bank (NHB) will continue to function as the supervisor of the HFCs, conducting on-site and off-site surveillance, the Reserve Bank of India (RBI) will be the primary regulator of these institutions.

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(C) Providing financial assistance to Indian businesses for setting up joint ventures in foreign countries.
(D) Underwriting shares or debentures of companies engaged primarily in the business of foreign trade.

Ans :

(A) Providing refinance services to banks for their financing of purely domestic trade and commerce.
The functions of Exim Bank are centered around international trade. It finances imports/exports, supports overseas joint ventures, and underwrites shares of foreign trade companies. However, its refinancing services are specifically for banks and other financial institutions in relation to their financing of foreign trade, not domestic trade, which falls outside its primary mandate.

May/June 2019

51. According to the product and service classification of Exim Bank, which of the following is categorized as a 'Service'?
(A) Buyers Credit
(B) Lines of Credit
(C) Marketing Advisory Services
(D) Project Finance

Ans :

(C) Marketing Advisory Services
Exim Bank's offerings are categorized into 'Products' and 'Services'. Products like Buyers Credit, Lines of Credit, and Project Finance involve direct financial facilities. In contrast, Marketing Advisory Services, Research and Analysis, and Export Advisory Services are categorized as 'Services', as they provide non-financial support, knowledge, and guidance to exporters to enhance their international competitiveness.

Oct/Nov 2006

52. What is the primary purpose of the 'Lines of Credit (LOC)' extended by Exim Bank to overseas entities?
(A) To finance the import of strategic goods and services into India from developed countries.
(B) To provide direct working capital and term loans to Indian MSMEs involved in domestic trade.
(C) To fund research and development activities within Indian export-oriented units to improve product quality.
(D) To enable buyers in those countries to import developmental projects and goods from India on deferred credit.

Ans :

(D) To enable buyers in those countries to import developmental projects and goods from India on deferred credit.
Exim Bank extends Lines of Credit (LOC) to overseas financial institutions, regional development banks, and sovereign governments. The specific purpose of these LOCs is to enable buyers in those foreign countries to import developmental and infrastructure projects, equipment, goods, and services from India on deferred credit terms, thereby promoting Indian exports.

May/June 2021

53. The Working Group Mechanism, coordinated by Exim Bank, is responsible for the clearance of Project and Services Exports for amounts above what threshold?
(A) ₹50 crores
(B) ₹100 crores
(C) ₹200 crores
(D) ₹500 crores

Ans :

(C) ₹200 crores
For high-value export projects, a special clearance mechanism is in place. Exim Bank acts as the coordinator for the inter-institutional Working Group Mechanism. This group is responsible for according clearance to contracts for Project and Services Exports, as well as Deferred Payment Exports, specifically for amounts that are above ₹200 crores, ensuring a coordinated approach.

Oct/Nov 2010

54. What is a key role of Exim Bank's Marketing Advisory Services (MAS) Group?
(A) To provide direct funding and grants for the international marketing campaigns of Indian exporters.
(B) To pro-actively assist Indian exporting firms in locating suitable overseas distributors and business partners.
(C) To conduct mandatory statutory audits of all export-oriented units to ensure regulatory compliance.
(D) To set the benchmark interest rates for all

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CHAPTER 24

Micro Finance Institutions

Oct/Nov 2014

1. What is the primary objective of microfinance as an economic tool?

(A) To provide large-scale industrial loans and promote corporate growth.
(B) To promote financial inclusion for poor and low-income households.
(C) To offer high-interest credit facilities to urban salaried individuals.
(D) To focus exclusively on micro-pension services for government employees.

Ans :

(B) To promote financial inclusion for poor and low-income households.
Microfinance is a form of financial service designed to promote financial inclusion by providing small loans and other services like micro-savings and micro-insurance. It enables poor and low-income households to increase their income levels, improve living standards, and emerge from poverty, making it a crucial tool for economic empowerment and development among marginalized communities.

May/June 2021

2. Which of the following is NOT considered a core component of microfinance services?

(A) Macro-economic policy advisory
(B) Micro-credit
(C) Micro-savings
(D) Micro-insurance

Ans :

(A) Macro-economic policy advisory
Microfinance encompasses a range of financial services tailored for low-income households, which include micro-savings, micro-credit, micro-insurance, and micro-pensions. Macro-economic policy advisory, which deals with broad, national-level economic strategies, is not a direct service provided under the microfinance umbrella, as microfinance focuses on individual and community-level financial needs and empowerment through small-scale financial products.

Oct/Nov 2005

3. During the first phase of microfinance evolution in India, which institution was primarily strengthened by the government to promote rural credit?

(A) Commercial Banks
(B) Regional Rural Banks
(C) Cooperative Institutions
(D) Non-Government Organisations

Ans :

(C) Cooperative Institutions
The first phase of microfinance evolution in India began in the pre-independence era. During this period, the government's primary strategy to promote rural credit was by strengthening the cooperative institutions. The Reserve Bank of India also established the Agriculture Credit Department to support this initiative, laying the groundwork for future rural financial development in the country.

May/June 2010

4. In which year was the Lead Bank Scheme introduced by the Reserve Bank of India?

(A) 1947
(B) 1975
(C) 1982
(D) 1969

Ans :

(D) 1969
The Lead Bank Scheme was introduced by the RBI in December 1969, marking the beginning of the second phase of microfinance evolution in India. This scheme initiated a process of creating district credit plans and improving coordination among various financial intermediaries. It was a significant step towards augmenting the delivery of financial services in rural areas.

NODIA

May/June 2017

67. Which of the following is NOT an objective of the National Housing Bank (NHB) as per the text?
(A) To make housing credit more affordable.
(B) To regulate the activities of housing finance companies.
(C) To directly construct and sell houses to the general public.
(D) To encourage augmentation of the supply of buildable land.

Ans :

(C) To directly construct and sell houses to the general public.
The objectives of NHB are focused on promoting and regulating the housing finance system. This includes making credit affordable, regulating HFCs, and encouraging the supply of land and materials. However, its role is that of a facilitator and financier, not a direct constructor or developer. It lends to public agencies for construction but does not undertake construction itself.

Oct/Nov 2005

68. The National Bank for Financing Infrastructure and Development (NaBFID) is regulated and supervised as an All India Financial Institution (AIFI) by the RBI, making it the _____ AIFI.
(A) third
(B) fourth
(C) sixth
(D) fifth

Ans :

(D) fifth
The Reserve Bank of India regulates and supervises a select few institutions as All India Financial Institutions (AIFIs). With the establishment of the National Bank for Financing Infrastructure and Development (NaBFID) in 2021, it became the latest addition to this list. It is the fifth AIFI, following EXIM Bank, NABARD, NHB, and SIDBI.

May/June 2020

69. "Section five of the NaBFID Act 2021 states that the authorised share capital of the Institution shall be one hundred thousand crore rupees divided into ten thousand crores of fully paid-up shares of ten rupees each... Central Government shall hold at least twenty-six per cent of the shares at all times."
Based on the source, what is the mandatory minimum shareholding percentage for the Central Government in NaBFID?
(A) 100%
(B) 51%
(C) 49%
(D) 26%

Ans :

(D) 26%
The source, quoting from Section five of the NaBFID Act 2021, explicitly states the mandatory minimum shareholding for the Central Government. It specifies that the 'Central Government shall hold at least twenty-six per cent (26%) of the shares at all times,' which corresponds to 26%.

Oct/Nov 2015

70. According to the functions and powers of NaBFID, for what specific purpose can it accept short-term loans?
(A) For any general business purpose as may be decided by the Board of Directors.
(B) Only for the specific purpose of managing temporary asset liability mismatches.
(C) For directly financing new, large-scale greenfield infrastructure projects.
(D) For providing early-stage venture capital funding to technology start-ups.

Ans :

(B) Only for the specific purpose of managing temporary asset liability mismatches.
While NaBFID's primary role is long-term financing, its ability to borrow short-term is restricted. The governing act specifies that short-term loans may be accepted, but only for the purpose of managing asset liability mismatches (ALM) and not for other business activities.

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the irrational exuberance of some MFIs, which, in their eagerness for rapid business growth, abandoned prudent practices like due diligence. This led to over-indebtedness and coercive recovery methods, culminating in a severe crisis.

May/June 2014

10. Who is considered the global pioneer of microfinance and was awarded the Nobel Prize in 2006 for his work?
(A) Muhammad Yunus
(B) Amartya Sen
(C) Verghese Kurien
(D) C. Rangarajan

Ans :

(A) Muhammad Yunus
Professor Muhammad Yunus is celebrated as the global pioneer of microfinance. He began his experiments in 1976 and formally established the Grameen Bank in Bangladesh in 1983. His groundbreaking work in providing credit to the poor without collateral earned him, along with the Grameen Bank, the Nobel Peace Prize in 2006 for their efforts in economic and social development.

Oct/Nov 2009

11. In the Grameen Bank model, what is the typical size of a group formed by borrowers?
(A) 2 members
(B) 10 members
(C) 20 members
(D) 5 members

Ans :

(D) 5 members
The Grameen Bank model is structured around the formation of small, peer-support groups. A group normally consists of 5 members. Although the liability to repay the loan lies with the individual borrower, the group structure provides mutual support and social pressure, which contributes to the model's high repayment rates. The loan is given directly based on trust.

May/June 2023

12. What was the key principle demonstrated by the success of the Grameen Bank model?
(A) The poor require heavily subsidised credit to escape poverty.
(B) The poor need access to financial services, not necessarily cheap credit.
(C) Collateral is essential for ensuring loan repayment from low-income borrowers.
(D) Only government-run banks can successfully serve the rural poor.

Ans :

(B) The poor need access to financial services, not necessarily cheap credit.
The success of the Grameen Bank fundamentally challenged conventional banking wisdom. It proved that the poor are creditworthy and that their primary need is access to formal financial services, rather than just cheap or subsidised credit. The model's high repayment rates, achieved without collateral, demonstrated the viability of banking with the poor based on trust and group dynamics.

Oct/Nov 2018

13. According to the chapter, which of the following are considered informal sector entities for the delivery of microfinance?
(A) Commercial Banks and Cooperative Banks
(B) Self-Help Groups and Joint Liability Groups
(C) Money lenders, mahajans, and shroffs
(D) NBFC-MFIs and Not for profit MFIs

Ans :

(C) Money lenders, mahajans, and shroffs
The delivery of microfinance involves both formal and informal channels. The informal sector entities are those traditionally embedded in the social and economic fabric, especially in rural areas. This category includes money lenders, mahajans, shroffs, and landowners, who operate outside the formal regulatory framework of the financial system but are a common source of credit.

May/June 2012

14. Which of the following is NOT a category of formal sector entities involved in microfinance delivery?
(A) Banks
(B) Self-help group - bank linkage
(C) MFIs
(D) Individual moneylenders

Ans :

(D) Individual moneylenders
The formal sector for microfinance delivery comprises Banks, the Self-help group-bank linkage models, and various types of Microfinance

NODIA

Institutions (MFIs). Individual moneylenders are classified under the informal sector, distinct from the structured and regulated entities that constitute the formal microfinance delivery channels.

Oct/Nov 2006

15. What is the typical group size for a Self-Help Group (SHG) in normal circumstances?
(A) 10-20 individuals
(B) 5-10 individuals
(C) 20-30 individuals
(D) A minimum of 25 individuals

Ans :

(A) 10-20 individuals
A Self-Help Group (SHG) is typically a small, informal association of 10 to 20 individuals. These members usually share a similar social and economic background and come together voluntarily to save small amounts regularly. This collective fund is then used to meet their emergency needs and support income-generating activities, fostering a culture of thrift and mutual support.

May/June 2019

16. Under what special circumstances can an SHG be formed with a minimum of 5 members?
(A) In metropolitan urban areas.
(B) In hilly tracts and predominantly tribal dominated areas.
(C) For groups consisting only of APL members.
(D) When the group is exclusively engaged in agricultural activities.

Ans :

(B) In hilly tracts and predominantly tribal dominated areas.
While the standard size of an SHG is 10-20 members, the guidelines provide flexibility for specific regions. In hilly tracts, tribal-dominated areas, and other locations where communities are dispersed or people are economically weaker or physically challenged, SHGs can be formed with a smaller group size, with the minimum number of members being five.

Oct/Nov 2010

17. What is the maximum permissible percentage of members from Above Poverty Line (APL) in an SHG in exceptional cases?
(A) 10%
(B) 30%
(C) 20%
(D) 50%

Ans :

(B) 30%
While it is preferred that all SHG members are from Below Poverty Line (BPL) households, the rules allow for some flexibility. Normally, up to 20% of members can be from Above Poverty Line (APL) families. In exceptional cases, this limit can be extended to 30%, provided these APL members live contiguously with the BPL members.

May/June 2005

18. According to the NABARD definition, what is the primary purpose of services provided by Microfinance Institutions (MFIs)?
(A) To enable the poor to raise their income level and improve living standards.
(B) To offer large corporate loans and facilitate growth in urban industrial centres.
(C) To provide specialized foreign currency exchange and remittance services.
(D) To exclusively manage and distribute pension funds for government employees.

Ans :

(A) To enable the poor to raise their income level and improve living standards.
As per the definition provided by NABARD, Microfinance Institutions (MFIs) are entities that provide thrift, credit, and other financial services in very small amounts. These services are targeted mainly at the poor in rural, semi-urban, or urban areas, with the specific objective of helping them raise their income levels and improve their overall living standards.

Oct/Nov 2022

19. An MFI registered under the Societies Registration Act, 1860, or the Indian Trust Act, 1882, falls into which category?
(A) Mutual benefit MFIs
(B) For profit MFIs (NBFC-MFIs)
(C) Not for profit MFIs
(D) Cooperative MFIs

Ans :

(C) Not for profit MFIs
Not for profit MFIs are established with a social objective rather than a profit motive. Their legal structures include societies registered under the

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Societies Registration Act, 1860, trusts set up under the Indian Trust Act, 1882, and companies established under Section 8 of the Companies Act, 2013 (formerly Section 25 of the Companies Act, 1956).

May/June 2016

20. Which category of MFIs includes State and National Cooperatives and societies set up under the Mutually Aided Cooperative Societies Act?
(A) For profit MFIs (NBFC-MFIs)
(B) Not for profit MFIs
(C) Section 8 Company MFIs
(D) Mutual benefit MFIs

Ans :

(D) Mutual benefit MFIs
Mutual benefit MFIs are member-owned institutions where the members are also the primary clients. This category includes State and National Cooperatives, as well as Mutually Aided Cooperative Societies. A notable example is the societies established under the Mutually Aided Cooperative Societies Act, which was enacted by the Government of Andhra Pradesh in 1955.

Oct/Nov 2016

21. Which type of MFI is regulated by the Reserve Bank of India and constitutes the largest category of microfinance providers in India?
(A) Mutual benefit MFIs
(B) Not for profit MFIs
(C) For profit MFIs (NBFC-MFIs)
(D) Unregistered local lenders

Ans :

(C) For profit MFIs (NBFC-MFIs)
For-profit MFIs, formally known as Non-Banking Financial Company-Microfinance Institutions (NBFC-MFIs), are the dominant players in the Indian microfinance sector. These entities are registered under the Companies Act and are regulated by the Reserve Bank of India, which subjects them to specific prudential norms, lending guidelines, and reporting requirements, distinguishing them from other MFI types.

May/June 2025

22. What is the requirement regarding Customer Due Diligence (CDD) when an SHG opens a savings bank account?
(A) CDD of all members is mandatory at the time of opening the savings account.
(B) CDD of all members is not required for opening a savings account.
(C) CDD of only the group leader is required.
(D) CDD is only required for SHGs in urban areas.

Ans :

(B) CDD of all members is not required for opening a savings account.
Under the simplified norms for Self Help Groups, the requirement for Customer Due Diligence (CDD) has been relaxed for the initial stage of banking. CDD of all individual members of an SHG is not required at the time of opening the group's savings bank account. This simplifies the process and encourages financial inclusion for these groups.

Oct/Nov 2019

23. At which stage does the Customer Due Diligence (CDD) of all members of an SHG become necessary?
(A) At the time of opening the savings bank account.
(B) Annually, after the account is opened.
(C) Only if the SHG defaults on a loan.
(D) At the time of credit linking of the SHG.

Ans :

(D) At the time of credit linking of the SHG.
While CDD for all members is not needed to open an SHG's savings account, it becomes a mandatory requirement at a later stage. According to RBI guidelines, the bank must complete the Customer Due Diligence of all the members of the SHG at the time of credit linking, which is when the group applies for a loan.

May/June 2009

24. What is the general savings-to-loan ratio that banks may sanction for SHGs as per NABARD guidelines?
(A) A varying ratio from 1:1 to 1:4
(B) A fixed ratio of 1:5
(C) A fixed ratio of 1:10
(D) A varying ratio from 1:5 to 1:10

Ans :

(A) A varying ratio from 1:1 to 1:4
According to the guidelines issued by NABARD for the SHG-Bank Linkage Programme, banks can sanction savings-linked loans to Self Help Groups. The quantum of the loan typically varies,

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with the savings-to-loan ratio ranging from 1:1 to 1:4. This means a group can be sanctioned a loan amount that is one to four times its total savings.

Oct/Nov 2024

25. For matured SHGs, what is the lending limit prescribed by NABARD guidelines?
(A) Strictly limited to four times their savings, with no exceptions permitted.
(B) Limited to twice their savings, as per the initial credit norms.
(C) Loans may be given beyond the limit of four times the savings, at the bank's discretion.
(D) No loans can be given beyond the initial sanctioned limit, even for matured groups.

Ans :

(C) Loans may be given beyond the limit of four times the savings, at the bank's discretion.
The standard 1:4 savings-to-loan ratio is not a rigid ceiling for all SHGs. For matured SHGs, which have a proven track record of successful financial management and repayment, banks are given the discretion to sanction loans beyond the limit of four times their savings, based on the bank's assessment of the group's creditworthiness and project needs.

May/June 2017

26. Who is ultimately responsible for the repayment of a loan granted to an SHG by a bank?
(A) The SHG as a collective entity.
(B) The individual member who utilized the funds.
(C) The bank manager who sanctioned the loan.
(D) The NGO that facilitated the group formation.

Ans :

(A) The SHG as a collective entity.
When a bank provides a loan under the SHG-Bank Linkage Programme, the loan is granted in the name of the Self Help Group itself. Consequently, the SHG as a group is collectively responsible for the timely repayment of the entire loan amount to the bank, regardless of how the funds were distributed among its individual members.

Oct/Nov 2015

27. What is the maximum amount for priority sector loans to SHGs/JLGs on which no loan-related and ad-hoc service charges should be levied?
(A) ₹10,000
(B) ₹50,000
(C) ₹1,00,000
(D) ₹25,000

Ans :

(D) ₹25,000
To keep credit affordable for the weaker sections, RBI/NABARD guidelines have set a limit on service charges. For eligible priority sector loans up to ₹25,000, banks are prohibited from levying any loan-related and ad-hoc service or inspection charges. For SHGs and JLGs, this limit of ₹25,000 is applicable on a per-member basis, not to the group's loan as a whole.

May/June 2013

28. Under the SHG-Bank linkage programme, which model involves direct financing of SHGs by banks without any NGO intervention?
(A) Model II
(B) Model I
(C) Model III
(D) Model IV

Ans :

(B) Model I
The SHG-Bank linkage programme operates through three distinct models. Model I is the NABARD-Bank-SHG model, where SHGs are formed and directly financed by the banks themselves. This model is characterized by the complete absence of any Non-Governmental Organisation (NGO) acting as a facilitator or intermediary in the process of group formation or credit linkage.

Oct/Nov 2021

29. Read the following excerpt and answer the question below. "Model II: NABARD–Bank–SHG (with NGO as a facilitating agency). Under this model, the NGOs will promote SHGs and link them with banks. SHGs formed by NGOs are also directly financed by banks. This is the most popular model and a majority of the SHGs were financed by banks under Model II." According to the excerpt, what is the role of the NGO in Model II of the SHG-Bank linkage programme?
(A) The NGO acts as a financial intermediary, borrowing from the bank and on-lending to SHGs.
(B) The NGO directly finances the SHGs from its own funds, bypassing the banking system.
(C) The NGO's role is limited to promoting SHGs and linking them with banks for direct

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financing.
(D) The NGO has no role in this model; banks and SHGs are expected to interact directly.

Ans :

(C) The NGO's role is limited to promoting SHGs and linking them with banks for direct financing. The provided text clearly defines the role of the NGO in Model II. The NGO acts as a facilitating agency, meaning it helps in the formation and nurturing of SHGs and connects them with banks. However, the financing itself is done directly by the banks to the SHGs, with the NGO not acting as a financial intermediary.

May/June 2024

30. In which model of the SHG-Bank linkage programme does an NGO act as a financial intermediary?
(A) Model I
(B) Model II
(C) Both Model II and Model III
(D) Model III

Ans :

(D) Model III
In Model III, described as NABARD-Bank-NGO-SHG, the NGO plays the role of a financial intermediary. Under this model, funds flow from the banks to the NGOs first. The NGOs then undertake the responsibility of on-lending these funds to the Self Help Groups, managing the loan portfolio at the ground level, and handling repayments.

Oct/Nov 2008

31. What is the specified group size for a Joint Liability Group (JLG)?
(A) 4-10 people
(B) 2-5 people
(C) 10-20 people
(D) 20-25 people

Ans :

(A) 4-10 people
A Joint Liability Group (JLG) is a small group of individuals, typically ranging from 4 to 10 people, from the same village or locality with a similar socio-economic background. They come together for the purpose of availing a loan from a bank without providing any collateral, based on the principle of mutual guarantee for repayment.

May/June 2006

32. A Joint Liability Group (JLG) is primarily formed for what purpose?
(A) To open a group savings account only.
(B) To avail a loan from a bank without any collateral.
(C) To act as a political pressure group.
(D) To undertake large-scale infrastructure projects.

Ans :

(B) To avail a loan from a bank without any collateral.
The primary purpose for forming a Joint Liability Group (JLG) is to enable its members to access bank loans without the need for individual collateral. The group members mutually guarantee each other's loans, creating a form of social collateral that makes them eligible for credit. This model helps individuals undertake livelihood and farming activities.

Oct/Nov 2017

33. A group of five tenant farmers in a village have not yet joined an SHG but require a loan to purchase seeds for the upcoming season. They approach a bank for a collateral-free loan. Which group-based lending model would be most suitable for them to form and avail credit?
(A) Self-Help Group (SHG)
(B) Joint Liability Group (JLG)
(C) Not for Profit MFI
(D) Cooperative Society

Ans :

(B) Joint Liability Group (JLG)
The scenario describes deserving individuals like tenant farmers who need a bank loan for their livelihood but are not part of an SHG. The Joint Liability Group (JLG) model is specifically designed for such cases. A group of 4-10 individuals, such as these five farmers, can form a JLG to avail a collateral-free loan based on mutual guarantee.

May/June 2008

34. What is the extent of refinance provided by NABARD for financing extended to JLGs by banks?
(A) To the full extent of the loans provided
(B) 50% of the loans provided
(C) 75% of the loans provided
(D) 90% of the loans provided

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not qualify as an NBFC-MFI can still extend microfinance loans, but this portfolio is now capped at a maximum of 25% of its total assets, an increase from the earlier 10% limit.

May/June 2023

52. What is the main purpose of a Fair Practices Code (FPC) for an industry like NBFC-MFIs?
(A) To define specific profit margins and annual revenue targets for all member institutions.
(B) To outline mandatory marketing and advertising strategies for acquiring new customers.
(C) To detail the internal audit procedures for financial reporting and tax compliance.
(D) To set criteria that justify the industry's functioning in compliance with regulatory guidelines.

Ans :

(D) To set criteria that justify the industry's functioning in compliance with regulatory guidelines.
A Fair Practices Code (FPC) serves as a set of guiding principles and criteria for an industry. Its primary purpose is to ensure and demonstrate that the industry's operations are transparent, fair, ethical, and in full compliance with the guidelines laid down by the regulator, and that no prohibited or barred activities are being undertaken by its members.

Oct/Nov 2018

53. Which of the following is NOT listed as an objective of the RBI's Fair Practices Code?
(A) To ensure customer satisfaction by setting higher standards for service delivery.
(B) To provide transparent business-related information to the public and stakeholders.
(C) To maximise shareholder return through aggressive lending and high interest rates.
(D) To adopt practices which are considered best for dealing fairly and ethically with the customer.

Ans :

(C) To maximise shareholder return through aggressive lending and high interest rates.
The objectives of the RBI's Fair Practices Code focus on customer protection and ethical conduct. These include adopting best practices, ensuring customer satisfaction, maintaining transparency, and avoiding unfair practices. Maximising shareholder return through aggressive lending is contrary to the spirit of the FPC, which prioritizes fair treatment of borrowers and sustainable business operations over pure profit maximisation.

May/June 2012

54. Identify the incorrect statement regarding the 'General' criteria of the Fair Practices Code for NBFC-MFIs.
(A) The FPC must be displayed in vernacular language in office premises.
(B) Training offered to borrowers must be charged at a nominal fee.
(C) Field staff must be trained to inquire about the existing debt of borrowers.
(D) Sanction and disbursement of loans should be done at a central location.

Ans :

(B) Training offered to borrowers must be charged at a nominal fee.
The Fair Practices Code explicitly states that any training offered to borrowers by the NBFC-MFI must be provided free of cost. This ensures that financial literacy and skill development initiatives, which are crucial for borrower empowerment, are accessible to all clients without imposing any additional financial burden on them. Charging a fee would contradict this principle.

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Oct/Nov 2006

55. According to the FPC for NBFC-MFIs, a declaration of accountability for preventing inappropriate staff behaviour should be included in which documents?
(A) In the annual report and the company's website only.
(B) In internal communications to the staff only.
(C) In the advertisements published by the MFI.
(D) In the loan agreement and the FPC displayed in the branch.

Ans :

(D) In the loan agreement and the FPC displayed in the branch.
To reinforce accountability, the FPC mandates that NBFC-MFIs must make a formal declaration holding themselves responsible for preventing inappropriate staff behaviour and ensuring timely grievance redressal. This declaration must be prominently included in two key documents: the loan agreement provided to the borrower and

Oct/Nov 2020

39. The RBI's Regulatory Framework for Micro Finance Loans Directions, 2022, were issued under powers conferred by which of the following acts?

1. Banking Regulation Act, 1949
2. Reserve Bank of India Act, 1934
3. National Housing Bank Act, 1987
4. Companies Act, 2013

Select the correct combination:

(A) 1 and 2 only
(B) 1, 2, and 4 only
(C) 1, 2, and 3 only
(D) All of the above

Ans :

(C) 1, 2, and 3 only
The RBI issued the comprehensive 2022 directions by exercising powers conferred upon it by multiple statutes. These include Section 21, 35A, and 56 of the Banking Regulation Act, 1949; Chapter IIIB of the RBI Act, 1934; and Sections 30A and 32 of the National Housing Bank Act, 1987, granting it broad authority over these financial entities.

May/June 2022

40. Read the following excerpt from the RBI Directions 2022 and answer the question below. "A micro finance loan is defined as a collateral-free loan given to a household, having annual household income up to ₹3.00 lakh. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children." Based on this definition, which of the following loans would qualify as a microfinance loan?

(A) A collateral-free loan of ₹60,000 to a household with an annual income of ₹2.8 lakh.
(B) A loan of ₹50,000 against a lien on a fixed deposit to a household with an income of ₹2.5 lakh.
(C) A collateral-free loan of ₹40,000 to a household with an annual income of ₹3.5 lakh.
(D) A loan of ₹1,00,000 secured by agricultural land to a household with an income of ₹2.0 lakh.

Ans :

(A) A collateral-free loan of ₹60,000 to a household with an annual income of ₹2.8 lakh.
The definition specifies two key criteria: the loan must be collateral-free, and the household's annual income must be up to ₹3.00 lakh. The loan described in the correct option meets both conditions, as it is collateral-free and the household income of ₹2.8 lakh is within the prescribed limit. The other options are disqualified due to having collateral or exceeding the income threshold.

Oct/Nov 2014

41. According to the RBI Directions 2022, what constitutes a 'household' for the purpose of defining a microfinance loan?

(A) An individual borrower only.
(B) All members living under the same roof, including married children.
(C) A husband, wife, and their unmarried children.
(D) Any group of individuals applying for a joint loan.

Ans :

(C) A husband, wife, and their unmarried children.
The RBI's 2022 directions provide a precise definition of a 'household' to ensure uniform application of the income criteria for microfinance loans. A household is defined as an individual family unit, which specifically includes the husband, wife, and their unmarried children. The combined income of this unit is considered for the eligibility assessment.

May/June 2021

42. To ensure the collateral-free nature of microfinance loans, what specific restriction is placed on regulated entities (REs)?

(A) The loan shall not be linked with a lien on the deposit account of the borrower.
(B) The loan cannot be used for purchasing or creating fixed assets.
(C) The loan amount is strictly capped and cannot exceed a pre-set limit like ₹50,000.
(D) The loan must be disbursed exclusively through digital channels like bank transfer.

Ans :

(A) The loan shall not be linked with a lien on the deposit account of the borrower.

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The RBI guidelines emphasize the truly collateral-free nature of microfinance loans. To enforce this, a specific prohibition is included: the loan must not be linked with a lien on the borrower's deposit account. This prevents lenders from using the borrower's savings as a form of security, reinforcing the principle of providing credit without traditional collateral.

Oct/Nov 2005

43. As per the RBI Directions 2022, who is responsible for putting in place a board-approved policy for the assessment of household income?
(A) The borrower
(B) The Credit Information Companies (CICs)
(C) The Self-Regulatory Organisation (SRO)
(D) Each Regulated Entity (RE)

Ans :

(D) Each Regulated Entity (RE)
The RBI mandates that every Regulated Entity (RE), such as a bank or an NBFC-MFI, must establish its own board-approved policy for assessing a potential borrower's household income. While SROs may develop a common framework, the ultimate responsibility for adopting and implementing a suitable income assessment methodology lies with the individual lending institution's board.

May/June 2010

44. A microfinance borrower has a monthly household income of ₹20,000. She already has an existing loan with an EMI of ₹4,000. She applies for a new microfinance loan. According to the RBI's 2022 guidelines, what is the maximum EMI the lender can approve for the new loan?
(A) ₹10,000
(B) ₹6,000
(C) ₹5,000
(D) ₹4,000

Ans :

(B) ₹6,000
The RBI guidelines cap the total monthly loan repayment obligation of a household at 50% of its monthly income. Here, the household's monthly income is ₹20,000, so the maximum permissible total EMI is 50% of ₹20,000, which is ₹10,000. Since she already pays an EMI of ₹4,000, the new loan's EMI cannot exceed ₹6,000 (₹10,000 - ₹4,000).

Oct/Nov 2023

45. The 50% limit on the loan repayment obligation of a household includes repayments for which types of loans?
(A) Only collateral-free microfinance loans.
(B) Only collateralised loans like home or vehicle loans.
(C) All outstanding loans, both collateral-free and collateralised.
(D) Only loans taken from NBFC-MFIs.

Ans :

(C) All outstanding loans, both collateral-free and collateralised.
The rule on limiting repayment obligations is comprehensive to prevent over-indebtedness. The calculation for the 50% cap on monthly household income must take into account all outstanding loans of the household. This includes not just collateral-free microfinance loans but also any other type of collateralised loans, ensuring a holistic view of the borrower's debt burden.

May/June 2018

46. What must a Regulated Entity (RE) disclose to a prospective borrower in a standardised simplified factsheet?
(A) The RE's annual profit and loss statement.
(B) The names of the RE's board of directors.
(C) A list of all other borrowers in the same village.
(D) Pricing related information, including all fees.

Ans :

(D) Pricing related information, including all fees.
To ensure transparency in lending, RBI mandates that each Regulated Entity (RE) must provide a standardised and simplified factsheet to every prospective borrower. This factsheet must clearly disclose all pricing-related information. Any fee to be charged by the RE or its partner must be explicitly mentioned, preventing hidden charges and promoting informed decision-making by the borrower.

Oct/Nov 2011

47. What is the rule regarding pre-payment penalties on microfinance loans as per the 2022 RBI guidelines?
(A) There shall be no pre-payment penalty on

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microfinance loans.
(B) A fixed 2% pre-payment penalty is mandatory.
(C) Pre-payment penalty can be charged at the RE's discretion.
(D) Penalty is allowed only if the pre-payment is made within 6 months.

Ans :

(A) There shall be no pre-payment penalty on microfinance loans.
The RBI's 2022 guidelines are designed to be borrower-friendly and promote financial flexibility. A key provision in this regard is the complete prohibition of pre-payment penalties on microfinance loans. This allows borrowers to repay their loans early without incurring any additional charges, reducing their interest burden if their financial situation improves unexpectedly.

May/June 2007

48. If a penalty is charged for delayed payment on a microfinance loan, on what amount should it be applied?
(A) On the entire loan amount outstanding.
(B) On the overdue amount only.
(C) On the principal component of the entire loan.
(D) On the total original sanctioned loan amount.

Ans :

(B) On the overdue amount only.
The RBI guidelines specify that any penalty for delayed payment must be fair and not punitive. Therefore, if a penalty is levied, it must be applied only on the amount that is actually overdue (the missed instalment amount), and not on the entire outstanding loan amount. This prevents the borrower from being excessively penalised for a temporary default.

Oct/Nov 2025

49. Assertion (A): Regulated Entities must inform borrowers well in advance of any change in interest rate, and such changes can only be effective prospectively.
Reason (R): This practice ensures transparency and protects borrowers from sudden and retrospective increases in their repayment obligations.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion correctly states the RBI rule on communicating interest rate changes. The reason provides the precise rationale for this rule. By requiring advance notice and prospective application, the regulation ensures transparency and fairness, preventing lenders from imposing sudden financial shocks on borrowers and allowing them to plan their finances accordingly, which is a core tenet of borrower protection.

May/June 2014

50. Under the RBI Directions 2022, what is the revised minimum requirement of microfinance loans (as a percentage of total assets) for an NBFC to be classified as an NBFC-MFI?
(A) 75%
(B) 50%
(C) 60%
(D) 85%

Ans :

(A) 75%
The 2022 RBI guidelines revised the qualifying asset criteria for NBFC-MFIs to align with the new definition of a microfinance loan. To be classified as an NBFC-MFI, an NBFC must now have a minimum of 75% of its total assets in the form of microfinance loans. This ensures that the institution is primarily focused on micro-lending activities.

Oct/Nov 2009

51. For an NBFC that does not qualify as an NBFC-MFI, what is the maximum limit on extending microfinance loans as a percentage of its total assets?
(A) 10%
(B) 15%
(C) 25%
(D) 30%

Ans :

(C) 25%
The RBI has also revised the lending cap for general NBFCs that are not specialized MFIs. Under the new guidelines, an NBFC that does

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Ans :

(A) To the full extent of the loans provided
To encourage banks to lend to Joint Liability Groups (JLGs), the National Bank for Agriculture and Rural Development (NABARD) provides significant support. Financing extended to JLGs by banks is eligible for refinance from NABARD to the full extent of the loans provided by the banks, thereby reducing the liquidity risk for the lending institutions.

Oct/Nov 2013

35. The RBI appointed a committee to study issues and concerns in the MFI sector following the 2010 crisis. Who was the chairman of this committee?
(A) C. Rangarajan
(B) Raghuram Rajan
(C) Y. H. Malegam
(D) Urjit Patel

Ans :

(C) Y. H. Malegam
In response to the 2010 microfinance crisis, primarily in Andhra Pradesh, the Reserve Bank of India appointed a committee to investigate the issues and suggest reforms. This important committee was chaired by Y. H. Malegam. It submitted its findings in January 2011, and its recommendations formed the basis for the new regulatory framework for MFIs in India.

May/June 2015

36. Which of the following was a key recommendation of the Y. H. Malegam Committee?
(A) Abolishing all MFIs and transferring their activities to commercial banks.
(B) Removing all interest rate ceilings on microfinance loans.
(C) Making collateral mandatory for all microfinance loans.
(D) Creating a separate category of NBFC to be designated as NBFC-MFI.

Ans :

(D) Creating a separate category of NBFC to be designated as NBFC-MFI.
One of the central recommendations of the Malegam Committee was to bring regulatory clarity and discipline to the sector. To achieve this, it proposed the creation of a distinct category of Non-Banking Financial Company specifically for microfinance operations, which would be designated as NBFC-MFI. This allowed for targeted regulation and supervision of these specialized institutions.

Oct/Nov 2012

37. Consider the following statements regarding the recommendations of the Malegam Committee:
1. It recommended prudential norms on capital adequacy for NBFC-MFIs.
2. It suggested prescriptions related to pricing of credit, including a margin cap.
3. It proposed measures to address over-borrowing and coercive recovery methods.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
The Malegam Committee made a comprehensive set of recommendations to reform the MFI sector. These included establishing prudential norms on capital adequacy and provisioning, prescribing rules for credit pricing with margin and interest rate caps, and introducing measures to tackle issues like multiple lending, over-borrowing, and the use of coercive recovery tactics, ensuring borrower protection.

May/June 2011

38. Bank credit extended to registered NBFC-MFIs for on-lending is eligible for categorisation under which of the following?
(A) Non-priority sector lending
(B) Priority sector lending
(C) International trade finance
(D) Capital market exposure

Ans :

(B) Priority sector lending
To ensure a continuous flow of funds to the microfinance sector, the RBI has classified bank credit to eligible MFIs as priority sector lending. Bank loans extended to registered NBFC-MFIs and other MFIs that are members of Self-Regulatory Organisations (SROs) for the purpose of on-lending to individuals, SHGs, or JLGs qualify under respective priority sector categories.

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the Fair Practices Code itself, which is displayed in the office/branch premises.

May/June 2019

56. Read the following excerpt from the FPC for NBFC-MFIs and answer the question. "In the loan agreement the following shall be disclosed:

i. all the terms and conditions of the loan,
ii. that the pricing of the loan involves only three components viz; the interest charge, the processing charge and the insurance premium..."

Based on this rule, which of the following charges would be a violation if included in the loan pricing?

(A) Loan renewal charge
(B) Interest charge
(C) Processing charge
(D) Insurance premium

Ans :

(A) Loan renewal charge
The FPC for NBFC-MFIs explicitly limits the pricing of a loan to only three components: the interest charge, the processing charge, and the insurance premium. Any additional fee, such as a separate "loan renewal charge," would be a violation of this guideline. The rule is designed to simplify the cost structure and enhance pricing transparency for the borrower.

Oct/Nov 2010

57. Which statement is FALSE regarding the disclosures in the loan agreement for an NBFC-MFI?

(A) It must state that no penalty will be charged on delayed payment.
(B) It must state that no Security Deposit/Margin is being collected.
(C) It must state that the borrower can be a member of multiple SHGs/JLGs simultaneously.
(D) It must provide an assurance that the privacy of borrower data will be respected.

Ans :

(C) It must state that the borrower can be a member of multiple SHGs/JLGs simultaneously.
The loan agreement must explicitly state that the borrower cannot be a member of more than one SHG/JLG. This rule is a crucial measure to prevent multiple lending and over-indebtedness, where a single borrower takes loans from various sources by joining different groups, leading to an unsustainable repayment burden. The other statements are all mandatory disclosures.

May/June 2005

58. Which of the following details must be reflected on the loan card provided to the borrower by an NBFC-MFI?

1. The effective rate of interest charged.
2. The grievance redressal system and nodal officer's contact number.
3. Acknowledgements of all repayments including the final discharge.
4. The personal details of other borrowers in the group.

Select the correct combination:

(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 2, and 3 only
(D) All of the above

Ans :

(C) 1, 2, and 3 only
The loan card is a critical document for borrower transparency. It must contain the effective interest rate, all terms and conditions, a record of repayments, and details of the grievance redressal system. Disclosing the personal details of other borrowers would be a breach of data privacy, which the FPC explicitly aims to protect.

Oct/Nov 2022

59. Under the FPC, when is an NBFC-MFI's field staff permitted to make recovery at the borrower's residence or workplace?

(A) At any time of the day or night, at the field staff's personal convenience.
(B) Only on the first instance of a missed payment, as a formal warning.
(C) Never, as recovery is strictly prohibited at a borrower's residence or workplace.
(D) If the borrower fails to appear at the central designated place on two or more successive occasions.

Ans :

(D) If the borrower fails to appear at the central designated place on two or more successive occasions.
The FPC establishes clear, non-coercive recovery methods. The primary location for recovery is a central designated place. Recovery at the borrower's residence or workplace is an

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regulated by the respective State Governments. This allocation ensures specialized supervision for each sector.

Oct/Nov 2006

21. If a company that is required to be registered with the RBI is found to be conducting non-banking financial activity as its principal business without registration, what action can the RBI take?

(A) The RBI's power is limited to issuing a formal warning letter to the company's board.
(B) The RBI can mandate a forced merger of the company with a large, registered NBFC.
(C) The RBI can impose penalties or initiate prosecution in a Court of Law.
(D) The RBI can direct the company to begin the process of converting into a commercial bank.

Ans :

(C) The RBI can impose penalties or initiate prosecution in a Court of Law.
Registration with the RBI is mandatory for companies undertaking NBFC activities as their principal business. If a company fails to comply with this requirement, the RBI is empowered to take punitive action. This can include imposing a monetary penalty or fine, and in more serious cases, initiating legal proceedings by prosecuting the company in a Court of Law.

May/June 2024

22. NBFCs are broadly classified based on three distinct criteria. Which of the following is NOT one of those three broad classifications?

(A) The kind of liabilities they access (Liabilities based)
(B) The geographical area of their operation (Region based)
(C) The type of activities they pursue (Activities based)
(D) Their perceived systemic importance (Size based)

Ans :

(B) The geographical area of their operation (Region based)
NBFCs are categorized using a multi-dimensional approach to tailor regulations effectively. The three broad classifications mentioned are based on liabilities (deposit-taking vs. non-deposit-taking), activities (e.g., asset finance, loan, investment), and size (systemic importance). Classification based on the geographical area of operation is not one of these primary classification pillars.

Oct/Nov 2018

23. In the context of liabilities-based classification, what is the key difference between Category 'A' and Category 'B' NBFCs?

(A) Category 'A' NBFCs have foreign shareholding, while Category 'B' do not.
(B) Category 'A' NBFCs are also known as NBFCs-ND, while Category 'B' are NBFCs-D.
(C) Category 'A' NBFCs have a lower capital adequacy requirement than Category 'B'.
(D) Category 'A' NBFCs have public deposits, while Category 'B' do not.

Ans :

(D) Category 'A' NBFCs have public deposits, while Category 'B' do not.
The liabilities-based classification divides NBFCs into two distinct groups. Category 'A' companies, also known as NBFCs-D (Deposit-taking), are those that accept public deposits. In contrast, Category 'B' companies, also known as NBFCs-ND (Non-Deposit-taking), are those that do not have public deposits and fund their operations through other means.

May/June 2007

24. Which of the following prudential norms are applicable to deposit-taking NBFCs (NBFC-Ds)?

I. Capital adequacy requirements
II. Assets & Liability Management (ALM) discipline
III. Exposure norms including restrictions on investment in land and building

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) I, II, and III

Ans :

(D) I, II, and III
Deposit-taking NBFCs (NBFC-Ds) are subject to a comprehensive set of prudential regulations due to their handling of public funds. These regulations include maintaining a minimum capital adequacy ratio, adhering to strict Assets & Liability Management (ALM) discipline, following exposure norms (which include restrictions on investments in land, building, and unquoted shares), and meeting regulatory reporting requirements.

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of RRBs also occurred in this phase (1975). The other options incorrectly match the events with their respective phases.

May/June 2009

64. Identify the INCORRECT statement regarding the delivery of microfinance.

(A) The formal sector includes commercial banks, cooperative banks, and MFIs.
(B) Self-Help Groups are considered part of the informal sector delivery mechanism.
(C) The informal sector includes entities like money lenders and mahajans.
(D) Joint Liability Groups are a formal mechanism to access bank credit.

Ans :

(B) Self-Help Groups are considered part of the informal sector delivery mechanism.
While SHGs are informal groups of people, their linkage with the banking system for credit is a key component of the formal microfinance delivery channel. The SHG-Bank Linkage Programme, involving Models I, II, and III, is a structured, formal mechanism for providing financial services to the poor, placing it squarely within the formal sector framework.

Oct/Nov 2024

65. An NBFC-MFI is assessing a loan application from a household. The husband earns ₹15,000 per month, the wife earns ₹8,000 per month, and their unmarried son, who lives with them, earns ₹5,000 per month. Their married daughter, who lives separately, earns ₹10,000 per month. What is the annual household income to be considered for the microfinance loan eligibility as per RBI's 2022 definition?

(A) ₹2,76,000
(B) ₹3,36,000
(C) ₹3,84,000
(D) ₹4,08,000

Ans :

(B) ₹3,36,000
The RBI defines a household as a family unit of husband, wife, and their unmarried children. The income of the married daughter living separately is excluded. The total monthly income is ₹15,000 (husband) + ₹8,000 (wife) + ₹5,000 (unmarried son) = ₹28,000. The annual household income is ₹28,000 × 12 = ₹3,36,000. This exceeds the ₹3 lakh limit, making the household ineligible.

May/June 2017

66. Read the following excerpt: "Financing to SHGs by banks are refinanced 100% by NABARD." What is the primary implication of this statement for banks lending to SHGs?

(A) Banks' liquidity is fully supported for the amount they lend to SHGs.
(B) Banks do not need to conduct any credit appraisal for SHG loans as they are guaranteed.
(C) Banks face zero credit risk on SHG loans because NABARD covers all defaults.
(D) NABARD will automatically repay the loan to the bank if the SHG defaults on payment.

Ans :

(A) Banks' liquidity is fully supported for the amount they lend to SHGs.
The 100% refinance facility from NABARD means that for every rupee a bank lends to an eligible SHG, it can borrow that same rupee from NABARD. This significantly mitigates the bank's liquidity risk and encourages it to increase its lending to the SHG sector. It does not eliminate credit risk, as the bank remains responsible for repayment to NABARD.

Oct/Nov 2015

67. Which of the following statements about the pricing of microfinance loans under the 2022 RBI framework is INCORRECT?

(A) Interest rates and other charges on microfinance loans should not be usurious.
(B) Each RE must have a board-approved policy for pricing loans.
(C) There is a fixed, universal interest rate cap applicable to all REs.
(D) A well-documented interest rate model must cover components like cost of funds and risk premium.

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Ans :

(C) There is a fixed, universal interest rate cap applicable to all REs.
The 2022 framework moved away from a fixed interest rate cap. Instead, it requires each Regulated Entity (RE) to have its own board-approved pricing policy that determines a reasonable interest rate based on its cost of funds, risk premium, and margin. While rates must not be usurious, there is no single, RBI-mandated cap for all lenders.

(B) 2016

To further enhance the growth and prominence of the NBFC sector, the Government of India gave the go-ahead for Foreign Direct Investment (FDI) under the Automatic Route for regulated NBFCs in August 2016. This policy decision was a significant step towards opening up the sector to global capital and expertise, contributing to its continued development.

Oct/Nov 2025

13. Which of the following is NOT cited as a reason for the significant role of NBFCs in promoting inclusive growth in rural and semi-urban areas?

(A) Their strength of reach and proximity to customers.

(B) Their ability to innovate products suited to local demands.

(C) Their ability to offer services at significantly lower costs than banks.

(D) Their ability to understand the financial needs of the local population.

Ans :

(C) Their ability to offer services at significantly lower costs than banks.

NBFCs excel in promoting inclusive growth due to their extensive reach, customer proximity, understanding of local needs, and product innovation. While they provide competition to banks, the text does not state that their services are offered at significantly lower costs. Their key advantage lies in accessibility and tailored services for the under-banked population, not necessarily cheaper pricing.

May/June 2017

14. How do Micro Finance Institutions (MFIs), which are largely NBFCs, contribute to financial inclusion at the grassroots level?

(A) By providing large-scale corporate loans and project finance in major urban centers.

(B) By focusing exclusively on the underwriting and distribution of life and general insurance products.

(C) By primarily managing government subsidy distribution programs for agricultural inputs.

(D) By creating strong grassroots linkages for reach and communication in rural areas.

Ans :

(D) By creating strong grassroots linkages for reach and communication in rural areas.

Micro Finance Institutions (MFIs) are at the forefront of financial inclusion by catering to the so-called un-bankable masses in rural and semi-urban regions. They achieve this by establishing strong linkages at the grassroots level, which creates an effective medium for reach and communication, allowing them to serve this segment very effectively and create livelihood sources.

Oct/Nov 2009

15. Assertion (A): NBFCs play a complementary role to the banking system in India.

Reason (R): NBFCs enhance competition and diversify into sectors like infrastructure and retail financing, reaching under-served regions.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

NBFCs complement the banking system rather than just competing with it. The reason for this complementary role is that they enhance overall competition in financial services and diversify into specific sectors like infrastructure and retail finance. They also reach under-banked regions, thus propelling growth and contributing to the government's financial inclusion agenda.

May/June 2021

16. Which of the following statements about the role of NBFCs is incorrect?

(A) They have reached out to relatively under-banked and under-served regions of the country.

(B) They primarily focus on the same customer segments as large public sector banks.

(C) They create conditions for improved consumer orientation and efficiency in the financial system.

(D) They are a source of major competition to banks, particularly in regional pockets.

Ans :

(B) They primarily focus on the same customer segments as large public sector banks.

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CHAPTER 25

Non – banking Financial Companies

Oct/Nov 2011

1. According to the role described for Non-Banking Financial Companies (NBFCs), which of the following is a primary function they perform in the Indian economy?

(A) Issuing cheques drawn on themselves to facilitate payments within the national settlement system.

(B) Offering credit facilities to individuals and businesses, especially in under-served areas.

(C) Acting as the primary lender of last resort to the central government for funding fiscal deficits.

(D) Exclusively managing the country's foreign exchange reserves and currency printing operations.

Ans :

(B) Offering credit facilities to individuals and businesses, especially in under-served areas.

NBFCs play a crucial role in the economy by extending credit to individuals and businesses, particularly in remote areas where traditional banking services may be limited. They support those who are often not serviced by banks, thereby promoting financial inclusion and helping to bring equilibrium to the economy by underpinning weaker sections of society.

May/June 2005

2. Which of the following activities would exclude an institution from being defined as a Non-Banking Financial Company (NBFC)?

(A) The principal business is that of agricultural activity.

(B) The principal business is providing loans and advances.

(C) The principal business is acquisition of shares and stocks.

(D) The principal business is leasing or hire-purchase.

Ans :

(A) The principal business is that of agricultural activity.

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The definition of an NBFC explicitly excludes any institution whose principal business is agricultural activity, industrial activity, purchase or sale of any goods (other than securities), or providing services and sale/purchase/construction of immovable property. Financial activities like lending, investment, leasing, and hire-purchase are characteristic of NBFCs, whereas agricultural operations are not.

Oct/Nov 2024

3. What is the defining characteristic of a Residuary Non-Banking Company (RNBC)?

(A) It is primarily engaged in equipment leasing and hire-purchase financing for commercial vehicles.

(B) It is a company that exclusively deals in foreign exchange transactions and currency swaps.

(C) Its principal business is receiving deposits under any scheme or arrangement.

(D) Its principal business is the construction and sale of immovable property for residential purposes.

Ans :

(C) Its principal business is receiving deposits under any scheme or arrangement.

A non-banking institution that is a company and has the principal business of receiving deposits under any scheme or arrangement, in one lump sum or in installments, by way of contributions or in any other manner, is defined as a Residuary Non-Banking Company (RNBC). This distinguishes it from other NBFCs focused on lending or asset financing.

May/June 2019

4. Identify the correct statement regarding the operational capabilities of NBFCs.

(A) NBFCs can issue cheques drawn on themselves and are part of the payment system.

(B) NBFCs are permitted to borrow directly from the Reserve Bank of India (RBI).

exception, permitted only if the borrower has failed to show up at the designated centre for recovery on two or more consecutive occasions, balancing operational needs with borrower protection.

May/June 2016

60. What should be the emphasis of the compensation methods for the field staff of an NBFC-MFI?
(A) Solely on quantitative targets like the number of loans mobilised and the rate of recovery.
(B) On areas of service and borrower satisfaction more than on simple recovery rates.
(C) Primarily on the number of new clients acquired each month to drive business growth.
(D) On the amount of additional non-credit products sold, such as insurance or other goods.

Ans :

(B) On areas of service and borrower satisfaction more than on simple recovery rates.
To align staff incentives with fair practices, the FPC directs that compensation methods for field staff should not be based merely on quantitative targets like loan numbers or recovery rates. Instead, more emphasis should be placed on qualitative aspects such as the quality of service provided and the level of borrower satisfaction, discouraging aggressive or inappropriate behaviour.

Oct/Nov 2016

61. An NBFC-MFI sanctions a loan to a borrower from a linguistic minority community. The loan agreement and loan card are provided only in English. The borrower cannot read English. Which specific guideline of the Fair Practices Code has been violated?
(A) The guideline on interest rate disclosure.
(B) The guideline on non-coercive recovery.
(C) The guideline on using vernacular language.
(D) The guideline on grievance redressal.

Ans :

(C) The guideline on using vernacular language.
The Fair Practices Code places strong emphasis on clear communication. It mandates that key documents, including the FPC display, the loan agreement, and all entries in the loan card, should be in a vernacular language that the borrower can understand. Providing documents only in English to a non-English speaking borrower is a direct violation of this crucial transparency and fairness rule.

May/June 2025

62. Match List-I (MFI Type) with List-II (Legal Structure/Regulator).
List-I
P. Not for profit MFI
Q. Mutual benefit MFI
R. For profit MFI
S. Informal Lender
List-II
1. State Cooperative Act
2. RBI Regulation
3. Societies Registration Act, 1860
4. Unregulated
Code:
(A) P-3, Q-1, R-2, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-1, Q-4, R-2, S-3
(D) P-3, Q-2, R-1, S-4

Ans :

(A) P-3, Q-1, R-2, S-4
Not for profit MFIs are often registered under the Societies Registration Act (P-3). Mutual benefit MFIs include cooperatives under acts like the State Cooperative Act (Q-1). For-profit MFIs are NBFC-MFIs regulated by the RBI (R-2). Informal lenders like moneylenders operate outside the formal regulatory framework and are thus unregulated (S-4).

Oct/Nov 2019

63. Identify the correct pair from the following.
(A) Second Phase of Microfinance : Introduction of Lead Bank Scheme
(B) First Phase of Microfinance : Introduction of RRBs
(C) Second Phase of Microfinance : Launch of SHG-Bank Linkage Programme
(D) Third Phase of Microfinance : Strengthening of Cooperative Institutions

Ans :

(A) Second Phase of Microfinance : Introduction of Lead Bank Scheme
The evolution of microfinance is divided into three phases. The second phase, starting in the late 1960s, was characterized by major policy initiatives like the Lead Bank Scheme (1969) and the nationalization of banks. The introduction

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(D) The establishment of the Shah Committee in 1992.

Ans :

(A) The addition of Chapter III-B to the Reserve Bank of India Act.
To address the need for a separate regulatory mechanism for financial companies acting as intermediaries, Chapter III-B was added to the Reserve Bank of India Act. This chapter assigned the RBI, albeit with limited authorities initially, the specific power to regulate NBFCs, particularly those that were involved in accepting deposits from the public.

Oct/Nov 2020

9. What was the key recommendation of the James S. Raj Study Group in 1975 regarding hire purchase and leasing companies?
(A) These companies should be nationalized and merged with public sector banks.
(B) They must convert into full-fledged commercial banks within ten years.
(C) They could accept deposits to the extent of their Net Owned Funds.
(D) They should be exempt from all forms of RBI regulation.

Ans :

(C) They could accept deposits to the extent of their Net Owned Funds.
The James S. Raj Study Group, formed in 1975, provided key recommendations for regulating the NBFC sector. A significant directive that emerged from its report was that hire purchase and leasing companies would be permitted to accept deposits, but this was capped to an extent linked to their Net Owned Funds, establishing an early prudential norm.

May/June 2008

10. What was the primary objective of the committee constituted by the RBI in 1992, headed by Mr. A. C. Shah?
(A) To suggest measures for the effective regulation of the NBFC industry.
(B) To suggest measures for the nationalization of NBFCs.
(C) To recommend the deregulation of interest rates for NBFC deposits.
(D) To explore the merger of NBFCs with commercial banks.

Ans :

(A) To suggest measures for the effective regulation of the NBFC industry.
Faced with a rapid increase in the number of NBFCs and the need for more effective oversight, the RBI constituted a committee in 1992 under Mr. A. C. Shah. The committee's mandate was to propose measures for effective regulation, which included recommendations on aspects ranging from compulsory registration to the implementation of prudential norms for the industry.

Oct/Nov 2016

11. The major changes made to the Reserve Bank of India Act in January 1997, particularly to Chapters III-B, III-C, and V, were aimed at achieving what primary goal?
(A) To increase the profitability of NBFCs by implementing a new system of tax incentives.
(B) To restrict the operational freedom of NBFCs, thus limiting their expansion into new markets.
(C) To transfer the primary regulatory power over NBFCs from the Reserve Bank of India to SEBI.
(D) To establish a complete regulatory and supervisory structure to protect customer interests.

Ans :

(D) To establish a complete regulatory and supervisory structure to protect customer interests.
The amendments to the RBI Act in January 1997 were a landmark development for the NBFC sector. The changes to Chapters III-B, III-C, and V were specifically designed to put in place a comprehensive regulatory and supervisory framework. This new structure was intended to protect the interests of NBFCs' customers and ensure the sector's smooth and stable functioning.

May/June 2010

12. In which year did the Government of India permit Foreign Direct Investment (FDI) under the Automatic Route for regulated NBFCs?
(A) 1997
(B) 2016
(C) 2008
(D) 2020

Ans :

NODIA

May/June 2013

68. Consider the following statements about Joint Liability Groups (JLGs):

1. The group size is typically 10-20 members.
2. Members must not be part of any SHG.
3. The group is formed to avail loans without collateral.

Which of the above statements is/are correct?

(A) 3 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(A) 3 only

The primary purpose of a JLG is to avail collateral-free loans (Statement 3 is correct). The typical group size for a JLG is 4-10, not 10-20 (Statement 1 is incorrect). While a JLG is often formed by individuals not in an SHG, it is not a strict rule that members cannot be part of an SHG (Statement 2 is incorrect).

Oct/Nov 2021

69. Read the following excerpt: "The crisis was attributed to the irrational exuberance of some MFIs who, in their eagerness to grow business, had given a go by to the conventional wisdom and good practices such as due diligence in lending and ethical recovery practices." This excerpt describes the cause of which major event in the Indian microfinance sector?

(A) The establishment of NABARD in 1982.
(B) The launch of the SHG-Bank Linkage Programme in 1992.
(C) The Andhra Pradesh microfinance crisis in 2010.
(D) The introduction of the RBI Directions in 2022.

Ans :

(C) The Andhra Pradesh microfinance crisis in 2010.

The excerpt directly points to the causes of the 2010 Andhra Pradesh microfinance crisis. The terms "irrational exuberance," "eagerness to grow business," and abandonment of "due diligence" and "ethical recovery practices" are the specific factors cited in the chapter as having culminated in the crisis, which involved over-indebtedness and coercive recovery methods, leading to significant distress.

May/June 2024

70. An NBFC-MFI's loan officer is evaluated based on a scorecard where 70% weightage is given to the number of loans disbursed and 30% to the recovery rate. The FPC states that compensation should have more emphasis on service and borrower satisfaction. Does the MFI's compensation method comply with the FPC?

(A) Yes, because it includes recovery rate, which is an important operational metric for the MFI.
(B) No, because it overemphasizes quantitative targets like loan numbers and recovery.
(C) Yes, because compensation structure is an internal policy matter of the MFI.
(D) No, because the weightage for recovery rate should be at least 50% to ensure sustainability.

Ans :

(B) No, because it overemphasizes quantitative targets like loan numbers and recovery.

The Fair Practices Code (FPC) specifically guides that compensation methods for staff should place more emphasis on service quality and borrower satisfaction rather than merely on quantitative targets like loan mobilization and recovery rates. A system where 100% of the evaluation is based on such quantitative metrics is in direct violation of the spirit and letter of this guideline.

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NBFCs are known for supporting individuals and businesses that are often not serviced by traditional banks. They cater to the lowest strata of society and the "un-bankable masses" in rural and semi-urban areas. Therefore, stating that they focus on the same customer segments as large public sector banks is incorrect, as their strength lies in serving niche and under-served segments.

Oct/Nov 2014

17. To avoid dual regulation, certain categories of NBFCs are exempted from the requirement of registration with the RBI. Which of the following entities is NOT in the exempted list?
(A) Venture Capital Funds registered with SEBI.
(B) Loan Companies with assets below Rs 100 crore.
(C) Insurance companies holding a valid registration from IRDAI.
(D) Nidhi companies regulated by the Ministry of Corporate Affairs.

Ans :

(B) Loan Companies with assets below Rs 100 crore.
The RBI exempts certain NBFCs from its registration requirement because they are already supervised by other dedicated regulators. This list includes VCFs (SEBI), insurance firms (IRDAI), Nidhi companies (MCA), and Chit funds (State Govts). A Loan Company, regardless of its asset size, is a type of NBFC that generally requires RBI registration unless it falls into another exempt category.

May/June 2012

18. Which authority is responsible for the regulation of Chit companies as defined in the Chit Funds Act, 1982?
(A) Respective State Governments
(B) Reserve Bank of India (RBI)
(C) Securities and Exchange Board of India (SEBI)
(D) Ministry of Corporate Affairs (MCA)

Ans :

(A) Respective State Governments
While Chit companies are a type of non-banking financial entity, their regulation does not fall under the purview of the RBI or other central regulators. As per the framework, Chit companies, defined under section 2(b) of the Chit Funds Act, 1982, are specifically regulated by the respective State Governments in which they operate.

Oct/Nov 2022

19. According to the regulatory framework for NBFCs, who is the primary regulator for Housing Finance Institutions?
(A) Securities and Exchange Board of India (SEBI)
(B) Ministry of Corporate Affairs (MCA)
(C) National Housing Bank (NHB)
(D) Insurance Regulatory and Development Authority of India (IRDAI)

Ans :

(C) National Housing Bank (NHB)
The regulatory landscape for financial institutions is specialized to ensure focused oversight. In the case of Housing Finance Institutions, the primary regulatory authority is the National Housing Bank (NHB). These institutions are therefore exempted from RBI's direct regulatory requirements to prevent dual regulation, as depicted in the regulatory structure chart.

May/June 2015

20. Match the type of financial institution in List-I with its corresponding regulator in List-II.
List-I (Financial Institution)
P. Merchant Banking Company
Q. Nidhi Company
R. Insurance Company
S. Chit Fund Company
List-II (Regulator)
1. State Government
2. IRDAI
3. SEBI
4. MCA
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-2, R-4, S-1
(D) P-1, Q-4, R-2, S-3

Ans :

(A) P-3, Q-4, R-2, S-1
The regulatory framework assigns specific regulators to different types of financial institutions to avoid overlap. Merchant Banking Companies are regulated by SEBI. Nidhi Companies are regulated by the Ministry of Corporate Affairs (MCA). Insurance Companies are regulated by IRDAI. Chit Fund Companies are

NODIA

(C) NBFCs can accept demand deposits similar to commercial banks.
(D) NBFCs cannot issue cheques drawn on themselves and cannot borrow from the RBI.

Ans :

(D) NBFCs cannot issue cheques drawn on themselves and cannot borrow from the RBI.
NBFCs are distinct from banks in several ways. They are not part of the payment and settlement system, which means they cannot issue self-drawn cheques. Additionally, they are not permitted to borrow funds directly from the Reserve Bank of India, a facility that is available to scheduled commercial banks. These restrictions define their operational boundaries within the financial system.

Oct/Nov 2012

5. As per the 1997 amendment to the Reserve Bank of India Act, 1934, which of the following is NOT included in the definition of a Non-Banking Finance Company?
(A) A financial institution which is a company.
(B) A non-banking institution which is a company with the principal business of receiving deposits or lending.
(C) A government department engaged in lending activities.
(D) Such other non-banking institution or class of institutions as the RBI may specify with Central Government approval.

Ans :

(C) A government department engaged in lending activities.
The 1997 amendment defines an NBFC as a financial institution that is a company, a non-banking institution that is a company engaged in deposit-taking or lending, or other specified institutions. It does not include government departments. The entity must be registered as a company to fall under the purview of NBFC regulations, distinguishing it from departmental undertakings.

May/June 2023

6. In accordance with Section 45-IA of the RBI Act, what are the two mandatory conditions for a company to commence or carry on the business of a non-banking financial institution?
(A) Obtaining a Certificate of Registration (CoR) from SEBI and having a minimum Net Owned Funds (NOF) of Rs 5 crores.
(B) Obtaining a Certificate of Registration (CoR) from the RBI and having minimum Net Owned Funds (NOF) of Rs 2 crores.
(C) Listing on a recognized stock exchange and maintaining a statutory liquidity ratio.
(D) Being registered under the Companies Act and having a minimum asset size of Rs 100 crores.

Ans :

(B) Obtaining a Certificate of Registration (CoR) from the RBI and having minimum Net Owned Funds (NOF) of Rs 2 crores.
Section 45-IA of the RBI Act stipulates two fundamental requirements for any NBFC to operate. First, it must obtain a Certificate of Registration (CoR) from the Reserve Bank of India. Second, it must have and maintain a minimum Net Owned Funds (NOF) of Rs 2 crores. Both conditions must be satisfied to legally commence or conduct NBFC business.

Oct/Nov 2007

7. During their initial phase of development in the 1960s, what was the primary regulatory framework governing NBFCs?
(A) The Reserve Bank of India Act, 1934
(B) The Banking Regulation Act, 1949
(C) The SEBI Act, 1992
(D) The Companies Act

Ans :

(D) The Companies Act
In the early stages of their evolution in the 1960s, NBFCs operated on a limited scale and were primarily regulated under the provisions of the Companies Act. It was only later, as their operations became more complex and their impact on the financial system grew, that a separate and more specialized regulatory mechanism was established under the RBI Act.

May/June 2014

8. What legislative change was introduced to provide the RBI with limited authorities to regulate deposit-taking companies?
(A) The addition of Chapter III-B to the Reserve Bank of India Act.
(B) The introduction of the Banking Regulation Act in 1949.
(C) The amendment of the Companies Act in 1965.

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Oct/Nov 2010

25. Which of the following is NOT a category of NBFC under the activity-based classification?
(A) Infrastructure Finance Companies (IFCs)
(B) NBFC - Account Aggregator (NBFC-AA)
(C) Zonal Service Companies (ZSCs)
(D) Mortgage Guarantee Companies (MGC)

Ans :

(C) Zonal Service Companies (ZSCs)
The RBI classifies NBFCs based on their principal business activity. The list of recognized categories includes specialized entities like Infrastructure Finance Companies (IFCs), NBFC - Account Aggregators (NBFC-AA), and Mortgage Guarantee Companies (MGC), among others. Zonal Service Companies (ZSCs) is not a recognized category of NBFC based on activity.

May/June 2011

26. Under the activity-based classification, what does NOFHC stand for?
(A) Non-Operating Financial Holding Company
(B) Non-Operational Finance and Holding Company
(C) Net Owned Financial Holding Company
(D) National Order of Financial Holding Companies

Ans :

(A) Non-Operating Financial Holding Company
Within the activity-based classification of NBFCs, NOFHC stands for Non-Operating Financial Holding Company. This is a specific type of financial institution through which promoter groups are permitted to set up new banks. It acts as a holding company for the bank and other financial services companies, without conducting operational financial activities itself.

Oct/Nov 2013

27. What is the asset size threshold for a non-deposit taking NBFC to be termed as a Systemically Important Non-Deposit taking NBFC (NBFC-ND-SI)?
(A) Rs 100 crores and above
(B) Rs 250 crores and above
(C) Rs 1000 crores and above
(D) Rs 500 crores and above

Ans :

(D) Rs 500 crores and above
The size-based classification identifies NBFCs that could have a systemic impact on the financial system. A non-deposit taking NBFC (NBFC-ND) is categorized as Systemically Important (NBFC-ND-SI) if its asset size is Rs 500 crores or more. These entities are subject to enhanced prudential regulations, including capital adequacy and exposure norms, due to their significant size.

May/June 2006

28. Following the 1997 amendments to the RBI Act, what is the mandatory percentage of profits that all NBFCs are required to transfer to a reserve fund every year?
(A) Not less than 10%
(B) Not less than 20%
(C) Not less than 15%
(D) Not less than 25%

Ans :

(B) Not less than 20%
The amendments to Chapter III-B of the RBI Act in 1997 introduced several prudential measures to strengthen the financial health of NBFCs. One of the salient features was the requirement for all NBFCs to create a reserve fund and to transfer a sum of not less than 20% of their net profits every year to this fund before declaring any dividend.

Oct/Nov 2019

29. Which of the following powers was NOT bestowed upon the RBI by the 1997 amendments to the RBI Act regarding the regulation of NBFCs?
(A) Empowering RBI to order a special audit of NBFCs.
(B) Empowering RBI to prohibit NBFCs from alienating assets.
(C) Empowering RBI to set the prime lending rate for all NBFCs.
(D) Empowering RBI to file winding up petitions against NBFCs.

Ans :

(C) Empowering RBI to set the prime lending rate for all NBFCs.
The 1997 amendments gave the RBI comprehensive powers to regulate and supervise NBFCs, including ordering special audits, prohibiting asset alienation to protect depositors, and filing winding-up petitions. However, these powers did not extend to setting a prime lending rate for NBFCs, as their interest rates

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are generally determined by their own board-approved policies, subject to certain overall caps.

May/June 2022

30. Identify the incorrect statement regarding the regulatory powers of the RBI over NBFCs after the 1997 amendments.
(A) It made obtaining a Certificate of Registration (CoR) from RBI mandatory for NBFCs.
(B) It required deposit-taking NBFCs to maintain assets in unencumbered approved securities.
(C) It empowered RBI to issue directions to NBFCs regarding income recognition and accounting standards.
(D) It made it mandatory for all NBFCs to have their shares listed on a stock exchange.

Ans :

(D) It made it mandatory for all NBFCs to have their shares listed on a stock exchange.
The 1997 amendments significantly strengthened RBI's regulatory oversight. Key provisions included mandatory CoR, maintenance of liquid assets for deposit-taking NBFCs, and power to prescribe accounting and income recognition norms. However, the amendments did not make it mandatory for all NBFCs to be listed on a stock exchange; many NBFCs remain privately held companies.

Oct/Nov 2023

31. Based on Figure 25.3, "Registrations and Cancellations of CoR of NBFCs", in which financial year did the number of cancellations of Certificates of Registration (CoR) peak significantly?
(A) 2018-19
(B) 2015-16
(C) 2017-18
(D) 2019-20 (upto September)

Ans :

(A) 2018-19
The bar chart clearly depicts the number of registrations and cancellations for each financial year. The dark grey bars represent cancellations. A visual inspection of the chart shows that the bar for cancellations in the financial year 2018-19 is the tallest, reaching a value of 1851, which is substantially higher than in any other period shown in the chart.

May/June 2009

32. What is the permissible period for which a deposit-taking NBFC (NBFC-D) can accept or renew public deposits?
(A) A minimum of 6 months and a maximum of 36 months.
(B) A minimum of 12 months and a maximum of 60 months.
(C) A minimum of 24 months and a maximum of 84 months.
(D) A minimum of 3 months and a maximum of 120 months.

Ans :

(B) A minimum of 12 months and a maximum of 60 months.
Regulations governing deposit-taking NBFCs specify a clear tenure for public deposits to ensure liability management stability. These NBFCs are permitted to accept and renew public deposits for a minimum period of 12 months (one year) and a maximum period of 60 months (five years). They are explicitly prohibited from accepting deposits that are repayable on demand.

Oct/Nov 2005

33. What is the current ceiling on the interest rate that a deposit-taking NBFC can offer on its public deposits, as prescribed by the RBI?
(A) 10.0% p.a.
(B) 12.5% p.a.
(C) 11.5% p.a.
(D) 14.0% p.a.

Ans :

(B) 12.5% p.a.
To protect the interests of depositors and maintain financial discipline, the RBI prescribes a ceiling on the interest rates that NBFCs can offer. Currently, deposit-taking NBFCs cannot offer interest rates higher than this ceiling rate, which is set at 12.5% per annum. This rate can be paid or compounded at rests not shorter than monthly intervals.

May/June 2018

34. Consider the following statements regarding the acceptance of public deposits by NBFCs:
I. NBFCs are not allowed to offer any gifts or incentives to depositors.
II. The deposits with NBFCs are insured by the DICGC.
Which of the statements is/are correct?

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(A) Only I is correct.
(B) Only II is correct.
(C) Both I and II are correct.
(D) Neither I nor II is correct.

Ans :

(A) Only I is correct.
To ensure transparency and fair practice, regulations prohibit NBFCs from offering gifts, incentives, or any other additional benefits to attract depositors. However, unlike bank deposits, the deposits accepted by NBFCs are not insured by the Deposit Insurance and Credit Guarantee Corporation (DICGC). This is a key risk that depositors must be aware of.

Oct/Nov 2021

35. What is the maximum limit of public deposits that an NBFC with a specific authorisation and an investment-grade rating can accept or hold?
(A) 1.0 times its Net Owned Funds (NOF)
(B) 2.5 times its Net Owned Funds (NOF)
(C) 1.5 times its Net Owned Funds (NOF)
(D) 5.0 times its Net Owned Funds (NOF)

Ans :

(C) 1.5 times its Net Owned Funds (NOF)
The quantum of public deposits an NBFC can accept is strictly regulated and linked to its financial strength. Only those NBFCs that have received specific authorisation from the RBI and possess a minimum investment-grade credit rating are allowed to accept or hold public deposits. This is capped at a limit of 1.5 times their Net Owned Funds (NOF).

May/June 2025

36. An Asset Finance Company (AFC) is a financial institution whose principal business is the financing of physical assets. What is the minimum threshold for this activity to be considered its principal business?
(A) The aggregate of financing real/physical assets and income therefrom must be at least 50% of its total assets and total income respectively.
(B) The aggregate of financing real/physical assets and income therefrom must be at least 75% of its total assets and total income respectively.
(C) The aggregate of financing real/physical assets and income therefrom must be at least 90% of its total assets and total income respectively.
(D) The aggregate of financing real/physical assets and income therefrom must be at least 60% of its total assets and total income respectively.

Ans :

(D) The aggregate of financing real/physical assets and income therefrom must be at least 60% of its total assets and total income respectively.
For an NBFC to be classified as an Asset Finance Company (AFC), its principal business must be financing physical assets that support productive/economic activity. The "principal business" test requires that the aggregate value of such financing and the income generated from it must constitute not less than 60% of its total assets and total income, respectively.

Oct/Nov 2015

37. A company, 'FinEquip Ltd.', is an NBFC. Its total assets are Rs 200 crore and total income is Rs 30 crore. It is engaged in financing automobiles and tractors, with these assets valued at Rs 130 crore and the income from them being Rs 20 crore. How would 'FinEquip Ltd.' be classified?
(A) Loan Company (LC)
(B) Investment Company (IC)
(C) Asset Finance Company (AFC)
(D) Infrastructure Finance Company (IFC)

Ans :

(C) Asset Finance Company (AFC)
To be an AFC, the financing of physical assets must be at least 60% of total assets and the income from it must be at least 60% of total income. Here, asset financing is Rs 130 crore / Rs 200 crore = 65%. The income from it is Rs 20 crore / Rs 30 crore = 66.7%. Since both thresholds (60%) are met, FinEquip Ltd. is classified as an AFC.

May/June 2013

38. How is a Loan Company (LC) defined in the context of NBFCs?
(A) A financial institution that provides loans exclusively against the collateral of gold jewellery and ornaments.
(B) A financial institution whose principal business is providing finance, but it does not include an Asset Finance Company.
(C) A financial institution whose principal business is the acquisition and holding of shares in other companies.

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(D) A financial institution that is permitted to accept deposits but is restricted from engaging in any lending activity.

Ans :

(B) A financial institution whose principal business is providing finance, but it does not include an Asset Finance Company.
A Loan Company (LC) is a specific type of NBFC. It is defined as any company that is a financial institution carrying on as its principal business the activity of providing finance, whether by making loans or advances or otherwise, for any activity other than its own. Crucially, this definition explicitly excludes an Asset Finance Company (AFC).

Oct/Nov 2017

39. Which of the following conditions must be met for an NBFC to be classified as a Systemically Important Core Investment Company (CIC-ND-SI)?
(A) It must hold not less than 75% of its total assets as investments, primarily in government securities.
(B) Its asset size must be Rs 500 crore or above and it must be classified as a deposit-taking NBFC.
(C) It must actively trade in its portfolio of investments in group companies to generate speculative profits.
(D) It must hold not less than 90% of its total assets as investments in equity, preference shares, debt or loans in group companies.

Ans :

(D) It must hold not less than 90% of its total assets as investments in equity, preference shares, debt or loans in group companies.
A CIC-ND-SI has specific characteristics. It must hold at least 90% of its total assets as investments in group companies. Within this, its investment in equity shares of group companies must be at least 60% of its total assets. It must not trade its investments (except for block sales) and its asset size must be Rs 100 crore or above.

May/June 2020

40. For an NBFC to be classified as an Infrastructure Finance Company (IFC), what is the minimum required Capital to Risk Weighted Assets Ratio (CRAR)?
(A) 15%
(B) 10%
(C) 12%
(D) 20%

Ans :

(A) 15%
An Infrastructure Finance Company (IFC) must meet several stringent criteria. Besides deploying at least 75% of its assets in infrastructure loans and having a minimum NOF of Rs 300 crore, it must also maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15%. This ensures it has a sufficient capital cushion against potential losses from its lending activities.

Oct/Nov 2008

41. What is the primary purpose of an Infrastructure Debt Fund Company (IDF-NBFC)?
(A) To provide short-term working capital loans to construction companies.
(B) To directly undertake the construction of infrastructure projects.
(C) To facilitate the flow of long-term debt into infrastructure projects.
(D) To provide equity funding for new infrastructure start-ups.

Ans :

(C) To facilitate the flow of long-term debt into infrastructure projects.
An Infrastructure Debt Fund (IDF-NBFC) is a specialized NBFC created to channel long-term debt into infrastructure projects. It achieves this by raising resources, typically through the issuance of Rupee or Dollar denominated bonds with a minimum maturity of 5 years, and then using these funds to finance infrastructure projects, often by refinancing existing bank loans.

May/June 2016

42. As per the RBI Master Direction updated on June 14, 2022, what is the minimum Net Owned Funds (NOF) requirement for an NBFC-MFI registered in the North Eastern Region of India?
(A) Rs 2 crore
(B) Rs 1 crore
(C) Rs 5 crore
(D) Rs 7 crore

Ans :

(A) Rs 2 crore
To encourage the growth of microfinance services in the North Eastern Region, the RBI has provided

NODIA

a relaxation in the minimum NOF requirement. While the standard minimum NOF for an NBFC-MFI is Rs 5 crore, for those registered in the North Eastern Region of the country, this requirement is lowered to Rs 2 crore.

Oct/Nov 2011

43. A lender provides a loan of Rs 50,000 to a household with an annual income of Rs 2,75,000. The loan is disbursed digitally and is not secured by any collateral, but the lender insists on linking it to a lien on the borrower's savings deposit account. Does this loan qualify as a "microfinance loan"?

(A) Yes, because the household's annual income is below the prescribed Rs 3,00,000 threshold.
(B) Yes, because the loan is collateral-free and was disbursed through approved digital channels.
(C) No, because the loan amount of Rs 50,000 is too high to be considered a microfinance loan.
(D) No, because the loan is linked with a lien on the deposit account of the borrower.

Ans :

(D) No, because the loan is linked with a lien on the deposit account of the borrower.
A microfinance loan has specific defining characteristics. While it must be a collateral-free loan provided to a household with an annual income up to Rs 3,00,000, a crucial condition is that the loan shall not be linked with a lien on the deposit account of the borrower. The lien in this case disqualifies it as a microfinance loan.

May/June 2005

44. To be classified as an NBFC-MFI, what is the minimum percentage of total assets that must be in the nature of "microfinance loans"?

(A) 50%
(B) 75%
(C) 60%
(D) 90%

Ans :

(B) 75%
The classification of an NBFC as a Microfinance Institution (NBFC-MFI) is contingent on the composition of its assets. A key eligibility criterion is that not less than 75% of its total assets must be in the nature of "microfinance loans" as defined under the relevant RBI Directions. This ensures the institution's primary focus remains on micro-lending activities.

Oct/Nov 2024

45. What is the regulatory requirement for the capital adequacy ratio of an NBFC-MFI regarding the composition of its capital?

(A) The total of Tier I Capital shall not exceed 100% of Tier II Capital.
(B) The total of Tier II Capital shall not exceed 50% of Tier I Capital.
(C) The total of Tier II Capital shall not exceed 100% of Tier I Capital.
(D) Tier I and Tier II capital must be maintained in equal proportion.

Ans :

(C) The total of Tier II Capital shall not exceed 100% of Tier I Capital.
NBFC-MFIs must maintain a minimum capital adequacy ratio of 15% of their aggregate risk-weighted assets. The regulation further specifies the composition of this capital, stating that the total of Tier II Capital at any point in time shall not exceed 100% of Tier I Capital, ensuring a strong core capital base.

May/June 2019

46. For an NBFC to be classified as an NBFC-Factor, what is the minimum percentage of its total assets that should be financial assets in the factoring business?

(A) At least 25%
(B) At least 75%
(C) At least 90%
(D) At least 50%

Ans :

(D) At least 50%
The classification of an NBFC-Factor is determined by a "principal business" test based on its assets and income. To qualify, its financial assets in the factoring business must constitute at least 50% of its total assets. Additionally, its income derived from the factoring business must not be less than 50% of its gross income.

Oct/Nov 2012

47. A financial institution, 'SecureHome Ltd.', has a Net Owned Fund of Rs 100 crore at the time of its business commencement. 92% of its gross income comes from providing mortgage guarantee

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(B) 30.8%
(C) 32.6%
(D) 31.8%

Ans :

(D) 31.8%
The bar chart displays different components of bank lending to NBFCs. For the period of September 2018 (Sep-18), the bar is segmented. The top segment, representing "Banks' Direct Lending", is shown with the value 31.8 written above the entire bar, which represents the overall bank exposure. The value 31.8 corresponds to the total share for that period.

May/June 2017

56. Under what condition can banks rediscount bills that were originally discounted by NBFCs?
(A) The bills must arise out of the sale of commercial vehicles, two-wheelers, or three-wheelers.
(B) The bills must be related to the sale of agricultural products directly from farmers to wholesalers.
(C) The bills must have a maturity period of more than 5 years and be backed by a government guarantee.
(D) The bills can be for any transaction, provided the NBFC has maintained a consistent 'AAA' credit rating.

Ans :

(A) The bills must arise out of the sale of commercial vehicles, two-wheelers, or three-wheelers.
Bank credit is generally not available for the activity of rediscounting bills for NBFCs. However, a specific exception is made for bills arising from the sale of commercial vehicles (including light commercial vehicles), two-wheelers, and three-wheelers, subject to further conditions like the bill being drawn by the manufacturer on the dealer to ensure genuineness.

Oct/Nov 2009

57. Which of the following activities undertaken by an NBFC is NOT eligible for bank credit?
(A) Financing the purchase of new commercial vehicles.
(B) Providing equipment leasing finance.
(C) Further lending to individuals for subscribing to Initial Public Offerings (IPOs).
(D) Extending hire-purchase finance for machinery.

Ans :

(C) Further lending to individuals for subscribing to Initial Public Offerings (IPOs).
While banks can finance many core activities of NBFCs, certain activities are specifically ineligible for bank credit due to their speculative nature or associated risks. This includes providing finance to NBFCs for the purpose of on-lending to individuals to subscribe to IPOs or to purchase shares from the secondary market.

NODIA

May/June 2021

58. An NBFC provides a loan to an individual for the purchase of shares from the secondary market. The NBFC then approaches a bank for a loan to fund this activity. How should the bank respond to this request?
(A) The bank should reject the request as this activity is not eligible for bank credit.
(B) The bank can approve the loan as it is for a legitimate investment activity.
(C) The bank can approve the loan if the NBFC provides 100% cash collateral.
(D) The bank should refer the proposal to RBI for special approval.

Ans :

(A) The bank should reject the request as this activity is not eligible for bank credit.
RBI guidelines explicitly state that certain activities undertaken by NBFCs are not eligible for bank finance. One such prohibited activity is financing NBFCs for further lending to individuals for the purchase of shares from the secondary market. Therefore, the bank must reject the loan request as it falls under the list of ineligible activities.

Oct/Nov 2014

59. As per the Fair Practice Code for NBFCs, in what language should all communications to the borrower be made?
(A) Only in English, as it is the official language of business communication.
(B) Only in Hindi, in accordance with the official language policy of the Union.
(C) In the language specified in the NBFC's official articles of association.
(D) In the vernacular language or a language understood by the borrower.

Ans :

(C) 10%
Net Owned Fund (NOF) is calculated by starting with the 'Owned Fund' and then making certain deductions. One key deduction is the amount of investment in shares and the book value of debentures, loans, and deposits made to subsidiaries, group companies, and other NBFCs, but only to the extent that this amount exceeds 10% of the NBFC's Owned Funds.

May/June 2008

52. Based on the following definition, what is 'Net Owned Fund'?
"Net Owned Fund' is the amount as arrived at above Owned Fund, minus the quantum of investments of the NBFC in shares of its subsidiaries, companies in the same group and all other NBFCs and the book value of debentures, bonds, outstanding loans and advances, including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group, to the extent it exceeds 10% of the Owned Funds."
(A) Owned Fund plus 10% of all investments made in group companies and other NBFCs.
(B) Owned Fund minus the entire book value of investments in group companies and subsidiaries.
(C) The total assets of the NBFC minus its total outside liabilities and revaluation reserves.
(D) Owned Fund minus the portion of investments in group companies that is in excess of 10% of the Owned Fund.

Ans :

(D) Owned Fund minus the portion of investments in group companies that is in excess of 10% of the Owned Fund.
The provided text explicitly defines 'Net Owned Fund' (NOF). It starts with the 'Owned Fund' and then subtracts specific investments and loans made to group companies and other NBFCs. However, the deduction is not for the full amount, but only for the portion of those investments that exceeds a threshold of 10% of the 'Owned Fund'.

Oct/Nov 2016

53. What significant change was made regarding bank finance to NBFCs registered with the RBI and engaged in permissible activities?
(A) Banks were prohibited from extending any form of credit, including term loans, to such NBFCs.
(B) Banks were mandated to take 100% tangible collateral for all loans extended to these NBFCs.
(C) The ceiling on bank credit linked to the Net Owned Funds (NOF) of NBFCs was withdrawn.
(D) Bank finance was restricted only to working capital loans and not for capital expenditure for these NBFCs.

Ans :

(C) The ceiling on bank credit linked to the Net Owned Funds (NOF) of NBFCs was withdrawn.
In a move to provide greater operational freedom and facilitate credit flow, the RBI deregulated a key aspect of bank finance to NBFCs. The ceiling on bank credit that was previously linked to the Net Owned Funds (NOF) of NBFCs was withdrawn for those registered with the RBI and engaged in permissible activities, allowing for need-based finance.

May/June 2010

54. Which of the following entities does NOT require registration with the RBI, and for which banks can take credit decisions on merits?
(A) Asset Finance Companies
(B) Insurance companies registered under the Insurance Act, 1938
(C) Loan Companies
(D) Investment Companies

Ans :

(B) Insurance companies registered under the Insurance Act, 1938
Certain entities that perform financial activities are regulated by other bodies and are exempt from RBI registration. This list includes insurance companies (regulated by IRDAI), Nidhi companies (MCA), and stock broking companies (SEBI). For these entities, banks are permitted to make their own credit decisions based on the merits of the proposal without needing to verify RBI registration.

Oct/Nov 2025

55. According to Figure 25.4 "Lending by Banks to NBFCs", what was the approximate "Share in overall borrowings (per cent)" from Banks' Direct Lending in September 2018?
(A) 28.4%

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The Fair Practice Code outlines a specific timeline for responding to a borrower's request to transfer their account. To ensure timely processing and prevent undue delays, an NBFC must convey its consent or objection, if any, to the borrower regarding the transfer of the borrowal account within 21 days from the date of receiving the request.

May/June 2024

64. Read the following excerpt from the Fair Practice Code guidelines: "In the matter of recovery of loans, the NBFCs should not resort to undue harassment, viz., persistently bothering the borrowers at odd hours, use muscle power for recovery of loans, etc." What is the primary obligation of NBFCs based on this rule?

(A) To ensure 100% recovery of all loans by any means necessary.
(B) To avoid undue harassment and use of force during the loan recovery process.
(C) To employ recovery agents who are physically intimidating.
(D) To contact borrowers only during business hours, without exception.

Ans :

(B) To avoid undue harassment and use of force during the loan recovery process.
This specific guideline under the Fair Practice Code places a clear obligation on NBFCs to conduct their loan recovery efforts ethically and professionally. It explicitly prohibits undue harassment, such as bothering borrowers at odd hours or, more severely, using muscle power. The focus is on ensuring a humane and appropriate approach to dealing with customers during recovery.

Oct/Nov 2018

65. A customer of an NBFC has a complaint that is not resolved by the company's Grievance Redressal Officer within 25 days. What is the customer's next course of action as per the prescribed grievance redressal mechanism?

(A) The customer must wait for a total of two months before being eligible to take further action.
(B) The customer may appeal to the Officer-in-Charge of the RBI's Department of Non-Banking Supervision.
(C) The customer can immediately file a case against the NBFC in a local civil court.
(D) The customer must re-submit the original complaint to the same Grievance Redressal Officer.

Ans :

(B) The customer may appeal to the Officer-in-Charge of the RBI's Department of Non-Banking Supervision.
The grievance redressal mechanism provides a two-tier process. If a complaint is not redressed by the NBFC within a period of 1 month, the customer has the right to escalate the issue. The next step is to appeal to the Officer-in-Charge of the Regional Office of the Department of Non-Banking Supervision (DNBS) of the RBI.

May/June 2007

66. As per the guidelines on the regulation of excessive interest charged by NBFCs, what must the Board of each NBFC do?

(A) Adopt an interest rate model considering factors like cost of funds, margin, and risk premium.
(B) Adopt a single, uniform interest rate for all categories of borrowers, regardless of risk.
(C) Seek prior written approval from the RBI for every individual interest rate change.
(D) Publish its complete interest rate schedule in all national newspapers on a daily basis.

Ans :

(A) Adopt an interest rate model considering factors like cost of funds, margin, and risk premium.
To prevent the charging of excessive interest rates, the RBI has mandated that the Board of each NBFC must adopt a formal interest rate model. This model should be based on relevant factors such as the company's cost of funds, the margin required for its business operations, and the risk premium associated with different categories of borrowers.

Oct/Nov 2010

67. Which of the following entities is explicitly excluded from the definition of an "NBFC" under the Integrated Ombudsman Scheme, 2021?

(A) An Asset Finance Company (AFC)
(B) A Loan Company (LC)
(C) A Core Investment Company (CIC)
(D) An NBFC-Microfinance Institution (NBFC-MFI)

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Ans :

(D) In the vernacular language or a language understood by the borrower.
The Fair Practice Code (FPC) emphasizes clear and transparent communication to protect borrower interests. A key provision under the FPC is that all communications from the NBFC to the borrower, including loan documents and sanction letters, must be in the vernacular language or a language that the borrower can understand, ensuring they are fully informed.

May/June 2012

60. What does the Fair Practice Code stipulate regarding the loan application forms provided by NBFCs?
(A) They should be as brief as possible to expedite the overall loan approval process.
(B) They should include necessary information to allow for meaningful comparison with other NBFCs' offers.
(C) They must be filled out only by trained NBFC staff on behalf of the prospective borrower.
(D) They should only be provided after the borrower pays a non-refundable upfront processing fee.

Ans :

(B) They should include necessary information to allow for meaningful comparison with other NBFCs' offers.
The Fair Practice Code requires loan application forms to be comprehensive and borrower-friendly. The forms should contain all necessary information that affects the borrower's interest. This enables the borrower to make a meaningful comparison of the terms and conditions with those offered by other NBFCs, facilitating an informed decision before committing to a loan.

Oct/Nov 2022

61. According to the Fair Practice Code, what is considered an "unfair practice" regarding the loan agreement?
(A) Charging a processing fee for the loan.
(B) Including a prepayment penalty clause in the agreement.
(C) Not furnishing a copy of the loan agreement to the borrower.
(D) Mentioning the annualized rate of interest in the agreement.

Ans :

(C) Not furnishing a copy of the loan agreement to the borrower.
The Fair Practice Code explicitly states that not furnishing a copy of the loan agreement and its enclosures to the borrower at the time of sanction or disbursement is an unfair practice. This can lead to disputes regarding terms and conditions, as the borrower may not be fully aware of their obligations, including the interest rate and other charges.

May/June 2015

62. An NBFC changes the interest rate on a loan retrospectively, leading to a higher liability for the borrower for past periods. The borrower objects to this. Which principle of the Fair Practice Code has the NBFC violated?
(A) The principle of communicating all loan-related matters in a vernacular language.
(B) The principle of providing a written acknowledgement for all completed loan applications.
(C) The principle of releasing all securities promptly upon repayment of all outstanding dues.
(D) The principle that changes in interest rates and charges should be effected only prospectively.

Ans :

(D) The principle that changes in interest rates and charges should be effected only prospectively.
A core tenet of the Fair Practice Code is to ensure fairness and transparency in contractual terms. The code mandates that any changes in interest rates and charges must be applied only prospectively, after providing due notice to the borrower. Applying changes retrospectively is a direct violation of this principle and is considered an unfair practice.

Oct/Nov 2006

63. If a borrower requests a transfer of their borrowal account to another lender, what is the maximum time frame within which the NBFC must convey its consent or objection?
(A) 21 days from the date of receipt of request
(B) 7 days from the date of receipt of request
(C) 15 days from the date of receipt of request
(D) 30 days from the date of receipt of request

Ans :

(A) 21 days from the date of receipt of request

NODIA

services. Does 'SecureHome Ltd.' qualify to be a Mortgage Guarantee Company (MGC)?
(A) Yes, as it meets both the income and the minimum NOF criteria.
(B) No, because its NOF is only Rs 100 crore.
(C) No, because its income from mortgage guarantee business is only 92%.
(D) No, because MGCs are not classified as NBFCs.

Ans :

(A) Yes, as it meets both the income and the minimum NOF criteria.
An MGC must meet two key criteria. First, at least 90% of its business turnover or gross income must be from mortgage guarantee business. 'SecureHome Ltd.' meets this with 92%. Second, it must have a minimum NOF of Rs 100 crore at commencement. It also meets this criterion. Therefore, it qualifies as a Mortgage Guarantee Company.

May/June 2023

48. What is the primary function of a Non-Operative Financial Holding Company (NOFHC)?
(A) To engage directly in lending and deposit-taking activities across the country.
(B) To act as a vehicle through which promoter groups can set up a new bank.
(C) To provide credit rating services for other financial institutions.
(D) To manage the operations of failed or liquidated NBFCs.

Ans :

(B) To act as a vehicle through which promoter groups can set up a new bank.
A Non-Operative Financial Holding Company (NOFHC) is a specific structure mandated by the RBI for the establishment of new private sector banks. It is a non-operating entity whose sole purpose is to hold the shares of the new bank and other financial services companies within the group, ensuring a clear separation between the promoters and the financial entities.

Oct/Nov 2007

49. The Financial Stability Board (FSB) defines shadow banking as 'credit intermediation involving entities and activities (fully or partially) outside the regular banking system'. What are the two important components of this concept?
(A) Government borrowing through bonds and public sector bank lending to priority sectors.
(B) Non-bank entities performing bank-like activities and specific activities like securitization.
(C) Retail banking for individuals and corporate banking for large businesses performed by non-banks.
(D) Foreign exchange trading by authorized dealers and commodity market operations on exchanges.

Ans :

(B) Non-bank entities performing bank-like activities and specific activities like securitization.
The concept of shadow banking has two main components. The first involves non-bank financial entities that engage in bank-like activities such as maturity transformation and credit risk transfer. The second component includes specific financial market activities like securitization, securities lending, and repo transactions that serve as important funding sources for these non-bank entities.

May/June 2014

50. Which of the following is NOT considered a component of 'Owned Fund' for an NBFC?
(A) Reserves created by revaluation of assets
(B) Paid-up equity capital
(C) Free reserves
(D) Balance in share premium account

Ans :

(A) Reserves created by revaluation of assets
'Owned Fund' represents the core capital of an NBFC. It is the aggregate of paid-up equity capital, compulsorily convertible preference shares, free reserves, and the balance in the share premium account. Importantly, it excludes reserves created by the revaluation of assets, as these do not represent realized surplus and are not considered part of core capital.

Oct/Nov 2020

51. In the calculation of Net Owned Fund (NOF) for an NBFC, by how much must the investment in subsidiaries, group companies, and other NBFCs exceed the Owned Funds before it is deducted?
(A) 5%
(B) 15%
(C) 10%
(D) 20%

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Ans :

(C) A Core Investment Company (CIC)
The Integrated Ombudsman Scheme, 2021, applies to most NBFCs registered with the RBI, but it specifies certain exclusions. The scheme explicitly does not cover a Core Investment Company (CIC), an Infrastructure Debt Fund-Non Banking Financial Company (IDF-NBFC), or an NBFC under resolution or winding up, among others.

May/June 2011

68. Based on the text describing the Scale Based Regulation (SBR) framework, which set of NBFCs will always remain in the Base Layer (NBFC-BL)?
(A) NBFC-D, CIC, and IFC
(B) NBFC-MFI, NBFC-Factors, and NBFC-MGC
(C) Government owned NBFCs
(D) NBFC-P2P, NBFC-AA, and NOFHC

Ans :

(D) NBFC-P2P, NBFC-AA, and NOFHC
The SBR framework places NBFCs into layers based on riskiness and activity. The guidelines explicitly state that certain types of NBFCs, due to their specific business models, will always remain in the Base Layer. This group includes NBFC-Peer to Peer Lending Platform (NBFC-P2P), NBFC-Account Aggregator (NBFC-AA), and Non-Operative Financial Holding Company (NOFHC).

Oct/Nov 2013

69. Under the Scale Based Regulation (SBR) framework, which layer is ideally expected to be empty?
(A) NBFC-Base Layer (NBFC-BL)
(B) NBFC-Middle Layer (NBFC-ML)
(C) NBFC-Top Layer (NBFC-TL)
(D) NBFC-Upper Layer (NBFC-UL)

Ans :

(C) NBFC-Top Layer (NBFC-TL)
The SBR framework consists of four layers. The first three layers—Base, Middle, and Upper—will have NBFCs placed in them based on specified parameters. The fourth layer, known as the Top Layer (NBFC-TL), is designed for NBFCs that pose extreme systemic risk. This layer is ideally expected to remain empty, with NBFCs being moved to it only if RBI perceives a substantial increase in their systemic risk.

May/June 2006

70. According to the Scale Based Regulation (SBR) framework, where will a deposit-taking NBFC (NBFC-D) be placed?
(A) Always in the Base Layer.
(B) In the Middle Layer or the Upper Layer.
(C) Always in the Top Layer.
(D) In the Base Layer or the Middle Layer.

Ans :

(B) In the Middle Layer or the Upper Layer.
The SBR framework specifies that certain types of NBFCs, due to their inherent nature and risk profile, cannot be in the Base Layer. Deposit-taking NBFCs (NBFC-D), along with CICs, IFCs, and HFCs, are explicitly excluded from the Base Layer and will be placed in either the Middle Layer (NBFC-ML) or the Upper Layer (NBFC-UL) as the case may be.

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the previous requirement of Indian ownership and control. With a 74% stake, a foreign company can appoint a majority of directors on the board, control the management, and dictate policy decisions, effectively allowing for foreign ownership and control.

May/June 2007

18. As per an IRDAI notification on 2nd September 2019, what is the permissible FDI limit for insurance intermediaries?
(A) 100%
(B) 26%
(C) 49%
(D) 74%

Ans :

(A) 100%
While the FDI limit for insurance companies is 74%, the regulation for insurance intermediaries is different. On September 2, 2019, the IRDAI issued a notification that effectively permitted 100% Foreign Direct Investment in insurance intermediaries, such as insurance brokers and corporate agents. This allows for full foreign ownership and control of these entities.

Oct/Nov 2012

19. According to a Swiss Re Institute publication, what was the approximate size of the total insurance premium underwritten globally in 2019?
(A) USD 3.1 trillion, or 4.5% of global GDP
(B) USD 5.2 trillion, or 6.1% of global GDP
(C) USD 6.3 trillion, or 7.2% of global GDP
(D) USD 8.5 trillion, or 9.0% of global GDP

Ans :

(C) USD 6.3 trillion, or 7.2% of global GDP
The global insurance market is substantial in size. Based on research from the Swiss Re Institute for the year 2019, the total insurance premium underwritten worldwide reached approximately USD 6.3 trillion. This figure represented about 7.2% of the total global Gross Domestic Product (GDP) for that year, highlighting the sector's economic significance.

May/June 2024

20. How did the composition of insurance business in India compare to the global composition in 2019?
(A) India's non-life business share was notably higher than the global average, indicating a focus on property and casualty.
(B) The business mix in India was almost evenly split between life and non-life, closely mirroring the global composition.
(C) India's life insurance business represented a significantly smaller portion of its total market compared to the global share.
(D) India's market was dominated by life insurance, which constituted a much higher percentage than the global average.

Ans :

(D) India's market was dominated by life insurance, which constituted a much higher percentage than the global average.
In 2019, there was a stark difference in the business mix between India and the world. Globally, the share of life insurance in total premium was 46.34%. In contrast, India's insurance market was heavily dominated by life insurance, which accounted for a substantial 74.94% of the total premium collected, with non-life business making up the remaining 25.06%.

Oct/Nov 2010

21. Among 88 countries for which data was published by Swiss Re for 2019, what was India's rank in the life insurance business?
(A) 5th
(B) 15th
(C) 10th
(D) 20th

Ans :

(C) 10th
Based on the data for life insurance business published by the Swiss Re Institute, India held a respectable position in the global market. For the year 2019, among the 88 countries surveyed, India was ranked 10th in terms of its life insurance business volume. This reflects the large scale of the life insurance sector within the country.

May/June 2019

22. Which of the following statements is correct regarding India's insurance market in 2019?
(A) India's insurance penetration was higher than the world average.
(B) India's share of life insurance in its total insurance business was more than comparable global figures.
(C) The growth of insurance business in India

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May/June 2011

4. What is the historical significance of the year 1818 in the context of the Indian insurance industry?
(A) The nationalisation of the life insurance sector.
(B) The establishment of the first general insurance company in India.
(C) The enactment of the first comprehensive Insurance Act to regulate all insurers.
(D) The advent of life insurance business with the establishment of the Oriental Life Insurance Company.

Ans :

(D) The advent of life insurance business with the establishment of the Oriental Life Insurance Company.
The year 1818 marks a pivotal moment in the history of Indian insurance. It saw the advent of modern life insurance business in the country with the establishment of the Oriental Life Insurance Company in Calcutta. Although this specific company later failed in 1834, its formation is recognized as the starting point for the sector's development in India.

Oct/Nov 2025

5. Which was the first statutory measure enacted by the Government of India to specifically regulate the life insurance business?
(A) The Insurance Act, 1938
(B) The Indian Insurance Companies Act, 1928
(C) The Indian Life Assurance Companies Act, 1912
(D) The British Insurance Act, 1870

Ans :

(C) The Indian Life Assurance Companies Act, 1912
While earlier acts existed, the Indian Life Assurance Companies Act of 1912 was the first piece of legislation specifically designed to regulate the life insurance business in India. This act was a significant step towards creating a structured regulatory framework for the sector, preceding the more comprehensive acts that followed in 1928 and 1938.

May/June 2005

6. What was the primary purpose of enacting the Indian Insurance Companies Act in 1928?
(A) To nationalise the life and non-life insurance business in India.
(B) To enable the Government to collect statistical information about life and non-life business.
(C) To set up the Life Insurance Corporation of India.
(D) To prohibit foreign insurance companies from operating in India.

Ans :

(B) To enable the Government to collect statistical information about life and non-life business.
The Indian Insurance Companies Act, 1928 was enacted with the specific objective of empowering the government to gather statistical data. This information pertained to both life and non-life insurance business being transacted in India by domestic and foreign insurers, as well as provident insurance societies, providing a clearer picture of the industry's scope at the time.

Oct/Nov 2019

7. The Insurance Act of 1938 was a landmark legislation that consolidated and amended earlier laws. What was its main objective?
(A) To actively encourage and facilitate the entry of new foreign insurers into the domestic Indian market.
(B) To execute the complete nationalisation of all privately-owned insurance companies currently operating in India.
(C) To create and establish a complete government-owned monopoly in the national reinsurance business.
(D) To protect the interests of the insuring public through comprehensive regulatory control.

Ans :

(D) To protect the interests of the insuring public through comprehensive regulatory control.
The Insurance Act, 1938 was a pivotal piece of legislation enacted with the primary goal of protecting the interests of the policy-holding public. It achieved this by consolidating previous laws and introducing comprehensive provisions that allowed for detailed and effective control over the activities of all insurers operating in India, setting the tone for future regulation.

May/June 2016

8. In what year was the life insurance sector in India nationalised, leading to the formation of the Life Insurance Corporation (LIC)?
(A) 1956

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CHAPTER 26
Insurance Companies

Oct/Nov 2014

1. According to the definition provided, what is the nature of an insurance contract?

(A) A unilateral agreement where the insured promises to pay a premium for potential future service.

(B) A contract where one party, the insurer, promises to indemnify the other, the insured, for financial loss against a premium.

(C) A speculative agreement where the insurer wagers on the non-occurrence of an event.

(D) A tripartite agreement involving the insurer, the insured, and a government regulator who guarantees the payout.

Ans :

(B) A contract where one party, the insurer, promises to indemnify the other, the insured, for financial loss against a premium.

Insurance is defined as a contract between two parties. The insurer commits to making good any financial loss suffered by the insured. This promise is given in consideration for a payment known as a 'premium'. The formal contract document is referred to as the 'insurance policy', outlining the terms and conditions of this indemnification agreement.

May/June 2023

2. Which three entities constitute the core insurance environment in India?

(A) Insurance companies, insurance intermediaries, and the Insurance Regulatory and Development Authority of India (IRDAI).

(B) Insurance companies, policyholders, and the Ministry of Finance.

(C) Insurers, reinsurers, and international regulatory bodies.

(D) Public sector insurers, private sector insurers, and foreign insurers.

Ans :

(A) Insurance companies, insurance intermediaries, and the Insurance Regulatory and Development Authority of India (IRDAI).

The insurance environment is comprised of the companies that underwrite risks, the intermediaries who act as a bridge to the customers, and the principal regulator. In the Indian context, these are the insurance companies themselves, various insurance intermediaries like agents and brokers, and the apex regulatory body, the Insurance Regulatory and Development Authority of India (IRDAI).

Oct/Nov 2007

3. Ancient Indian texts like Manusmrithi and Kautilya's Arthasastra mention a concept that is considered a precursor to modern insurance. What was this concept?

(A) The establishment of a centralized, state-run fund specifically designed to cover all citizens' medical and health-related expenses.

(B) The widespread practice of individual households accumulating savings in gold and precious metals for use during personal financial emergencies.

(C) The pooling of community resources for redistribution during large-scale calamities.

(D) The formal creation of legally binding contracts for maritime trade loans, which were explicitly guaranteed against loss by the reigning king or monarch.

Ans :

(C) The pooling of community resources for redistribution during large-scale calamities.

Early Indian history contains concepts analogous to insurance. Writings by Manu, Yagnavalkya, and Kautilya describe systems involving the pooling of community resources. These pooled funds were intended for redistribution among members who suffered losses from large-scale calamities such as floods, fires, epidemics, or famine, functioning similarly to the basic principle of modern insurance.

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into four distinct companies: National Insurance Company Ltd., New India Assurance Company Ltd., Oriental Insurance Company Ltd., and United India Insurance Company Ltd.

Oct/Nov 2016

13. Which committee was set up by the Government in 1993 to propose recommendations for reforms in the insurance sector?
(A) The Narasimham Committee
(B) The C. Rangarajan Committee
(C) The R N Malhotra Committee
(D) The Y. V. Reddy Committee

Ans :

(C) The R N Malhotra Committee
In 1993, to complement the financial sector reforms already underway, the Government of India established a committee to recommend reforms for the insurance sector. This committee was chaired by Shri R. N. Malhotra, a former Governor of the Reserve Bank of India. Its 1994 report laid the groundwork for the liberalisation of the insurance industry.

May/June 2018

14. Following the recommendations of the Malhotra Committee, the Insurance Regulatory and Development Authority (IRDA) was incorporated as a statutory body in which year?
(A) 1994
(B) 1999
(C) 2002
(D) 2000

Ans :

(D) 2000
The Malhotra Committee report led to significant legislative action. The Insurance Regulatory and Development Authority (IRDA) was initially constituted as an autonomous body in 1999. It was subsequently incorporated as a statutory body in April 2000, formally empowering it to regulate and develop the insurance industry in India, marking the start of the liberalised era.

Oct/Nov 2011

15. What was the role of the General Insurance Corporation of India (GIC) immediately after its four subsidiaries were restructured as independent companies in December 2000?
(A) It was converted into a national re-insurer.
(B) It became a holding company for new private insurers.
(C) It was dissolved and its assets were transferred to the government.
(D) It began to directly compete with its former subsidiaries in retail business.

Ans :

(A) It was converted into a national re-insurer.
A significant restructuring occurred in December 2000 where the four subsidiaries of the General Insurance Corporation of India were made independent. Simultaneously, the role of GIC itself was transformed. It ceased to be a holding company and was converted into a national re-insurer, a role that was formally delinked from its subsidiaries by a Parliament bill in 2002.

May/June 2013

16. What is the current Foreign Direct Investment (FDI) limit in the Indian insurance sector as per the budget 2021-22 announcement?
(A) 26%
(B) 74%
(C) 49%
(D) 100%

Ans :

(B) 74%
The FDI policy in the insurance sector has evolved over time. Initially set at 26% in 2000 and raised to 49% in 2015, the limit was further increased through the budget 2021-22 announcement. The current cap for Foreign Direct Investment (FDI) in Indian insurance companies is 74%, allowing for foreign ownership and control.

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Oct/Nov 2020

17. What is the key implication of increasing the FDI cap in insurance companies to 74%?
(A) Foreign companies can only act as minority shareholders with no control.
(B) Insurance companies can now be foreign-owned and controlled.
(C) The IRDAI will be replaced by an international regulatory body.
(D) Indian promoters must hold at least 51% of the company's equity.

Ans :

(B) Insurance companies can now be foreign-owned and controlled.
The increase in the FDI cap to 74% represents a significant shift in stance. It moves away from

After reaching a peak in 2009 and declining until 2014, it began to rise again. For the specific year 2019, the overall insurance penetration, which is the ratio of premium to GDP, was recorded at 3.76%.

Oct/Nov 2023

27. What was the insurance density in India in the year 2019?
(A) USD 11.5
(B) USD 64.4
(C) USD 58
(D) USD 78

Ans :

(D) USD 78
Insurance density, or per capita premium, has also seen growth in India. After a period of decline up to 2016, the metric started to increase again from 2017. For the year 2019, the overall insurance density for the country reached USD 78, indicating the average amount spent on insurance per person in that year.

May/June 2009

28. In 2019, what were the specific penetration and density figures for the life insurance sector in India?
(A) Penetration of 3.76% and density of USD 78.
(B) Penetration of 2.82% and density of USD 58.
(C) Penetration of 0.94% and density of USD 19.
(D) Penetration of 5.20% and density of USD 64.4.

Ans :

(B) Penetration of 2.82% and density of USD 58.
The overall insurance metrics for 2019 can be broken down by sector. For the life insurance sector specifically, the penetration (premium as % of GDP) was 2.82%. The corresponding insurance density (per capita premium) for the life insurance sector in India for the same year was recorded as USD 58.

Oct/Nov 2015

29. What were the penetration and density figures for the non-life insurance sector in India in 2019?
(A) Penetration of 2.82% and density of USD 58.
(B) Penetration of 1.50% and density of USD 25.
(C) Penetration of 0.94% and density of USD 19.
(D) Penetration of 3.76% and density of USD 78.

Ans :

(C) Penetration of 0.94% and density of USD 19.
In 2019, the non-life insurance sector's contribution to the overall metrics was distinct from the life sector. The penetration for the non-life sector in India was 0.94%, indicating that non-life premiums accounted for less than one percent of the nation's GDP. The density for this sector was USD 19 per capita.

May/June 2020

30. Based on the trend shown in Figure 26.2 'Insurance Penetration in India', during which period did the total penetration see a consistent decline?
(A) 2001 to 2005
(B) 2006 to 2009
(C) 2015 to 2019
(D) 2009 to 2014

Ans :

(D) 2009 to 2014
The line graph for 'Total' insurance penetration clearly shows a peak around the year 2009. Following this peak, the line trends consistently downwards until it bottoms out around 2014. After 2014, the trend reverses, and the line begins to show a gradual increase, making the 2009-2014 period the one of consistent decline.

Oct/Nov 2021

31. According to the data as of March 2020, how many standalone health insurers were operating in India, and in which sector were they?
(A) 6 insurers, all in the private sector.
(B) 6 insurers, all in the public sector.
(C) 27 insurers, split between public and private sectors.
(D) 8 insurers, with 2 in the public sector and 6 in the private sector.

Ans :

(A) 6 insurers, all in the private sector.
As of the end of March 2020, the Indian insurance market included a specific category for standalone health insurers. There were a total of 6 such companies operating in the country. All of these 6 standalone health insurance companies were part of the private sector, with no public sector entity operating exclusively in this category.

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was lower than the rest of the world.
(D) India ranked higher in the non-life insurance market than in the life insurance market globally.

Ans :

(B) India's share of life insurance in its total insurance business was more than comparable global figures.
An analysis of the 2019 data reveals key characteristics of India's insurance market. While overall penetration was below the world average, the market's growth rate was higher. Most notably, the composition was heavily skewed towards life insurance, with its share being significantly larger in India compared to the global average distribution between life and non-life business.

Oct/Nov 2017

23. Based on the "Total Real Premium Growth by Region in the World in 2019" table (Fig 26.1), which statement is accurate?
(A) The total premium growth rate in Emerging markets was significantly lower than the rate observed in Advanced markets.
(B) The premium growth rate for India's life insurance sector was less than the average growth rate for the Emerging markets bloc.
(C) Among all listed regions, the Asia-Pacific region demonstrated the highest overall real premium growth rate.
(D) The World's non-life premium growth rate was higher than its life premium growth rate.

Ans :

(D) The World's non-life premium growth rate was higher than its life premium growth rate.
The table shows that for the "World" category, the real premium growth in the Non-Life sector was 3.5%, while in the Life sector it was 2.2%. This confirms that global non-life premium growth outpaced life premium growth. All other statements are contradicted by the data presented in the table, such as India's life growth (7.3%) being higher than Emerging markets' (5.6%).

May/June 2012

24. How is 'insurance penetration' measured?
(A) As the percentage of insurance premium to the Gross Domestic Product (GDP).
(B) As the ratio of total insurance premium to the country's total population.
(C) As the total number of policies sold per 1000 citizens.
(D) As the total assets managed by insurance companies as a percentage of total financial assets.

Ans :

(A) As the percentage of insurance premium to the Gross Domestic Product (GDP).
Insurance penetration is a key metric used to measure the level of development of an insurance sector in a country. It is specifically defined and calculated as the total insurance premiums collected in a year expressed as a percentage of that country's Gross Domestic Product (GDP). A higher penetration rate generally indicates a more developed insurance market.

Oct/Nov 2006

25. What is the definition of 'insurance density'?
(A) The number of insurance companies operating per million of population.
(B) The percentage of the adult population that owns at least one insurance policy.
(C) The ratio of total insurance premium to the total population, expressed in USD.
(D) The average premium amount per insurance policy sold in the country.

Ans :

(C) The ratio of total insurance premium to the total population, expressed in USD.
Insurance density is another crucial indicator of an insurance market's development, focusing on per capita spending. It is calculated as the ratio of the total premiums underwritten in a year to the country's total population. This per capita premium figure is conventionally expressed in USD to allow for standardized international comparisons.

May/June 2022

26. According to the text, what was India's overall insurance penetration in the year 2019?
(A) 3.76%
(B) 2.71%
(C) 5.20%
(D) 3.30%

Ans :

(A) 3.76%
The text traces the trend of insurance penetration in India, noting its fluctuations over the years.

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(B) 1947
(C) 1950
(D) 1972

Ans :

(A) 1956
The nationalisation of the life insurance sector was a major event in India's financial history. An ordinance to this effect was issued on January 19, 1956, and the Life Insurance Corporation of India (LIC) came into existence in the same year. This move consolidated the business of 245 different Indian and foreign insurers into a single entity.

Oct/Nov 2022

9. How many Indian and non-Indian insurers and provident societies were absorbed to form the Life Insurance Corporation of India in 1956?
(A) 107 Indian insurers and 16 foreign insurers.
(B) 245 Indian insurers and 75 foreign insurers.
(C) 154 Indian insurers, 16 non-Indian insurers, and 75 provident societies.
(D) 75 Indian insurers, 154 non-Indian insurers, and 16 provident societies.

Ans :

(C) 154 Indian insurers, 16 non-Indian insurers, and 75 provident societies.
The formation of the Life Insurance Corporation (LIC) involved the amalgamation of a large number of existing entities. In total, 245 insurers were absorbed into the new corporation. This comprised 154 Indian insurance companies, 16 non-Indian insurance companies, and 75 provident societies, creating a state-owned monopoly in the life insurance sector at that time.

May/June 2010

10. Which was the first company established in India to transact all classes of general insurance business?
(A) Indian Mercantile Insurance Ltd.
(B) Triton Insurance Company Ltd.
(C) Oriental Life Insurance Company.
(D) New India Assurance Company Ltd.

Ans :

(A) Indian Mercantile Insurance Ltd.
The history of general insurance in India saw a key development in 1907 with the establishment of the Indian Mercantile Insurance Ltd. This company holds the distinction of being the first insurer set up in India to transact all classes of general insurance business, marking a significant milestone in the growth of the indigenous non-life insurance industry.

Oct/Nov 2008

11. What major regulatory change was introduced by the amendment to the Insurance Act in 1968 for the general insurance sector?
(A) To complete the full nationalisation of the entire general insurance business in the country.
(B) To mandate the immediate formation of the General Insurance Council as a self-regulatory body.
(C) To permit, for the first time, foreign direct investment in all general insurance companies.
(D) To introduce regulations for investments and set minimum solvency margins.

Ans :

(D) To introduce regulations for investments and set minimum solvency margins.
The 1968 amendment to the Insurance Act brought significant changes to the general insurance industry's regulation. The key provisions introduced were the regulation of investments made by insurance companies and the establishment of mandatory minimum solvency margins. The Tariff Advisory Committee was also set up during this time to control rates and terms of policies.

May/June 2021

12. The General Insurance Business (Nationalisation) Act, 1972 led to the amalgamation of 107 insurers into how many companies?
(A) One single entity called the General Insurance Corporation of India.
(B) Four subsidiary companies under the General Insurance Corporation of India.
(C) Ten regional insurance companies.
(D) Two separate companies for life and non-life business.

Ans :

(B) Four subsidiary companies under the General Insurance Corporation of India.
Following the enactment of the General Insurance Business (Nationalisation) Act in 1972, the general insurance business was nationalised effective January 1, 1973. A total of 107 insurers were amalgamated and restructured

NODIA

May/June 2014

32. As of March 2020, which of the following were the two specialised public sector insurers mentioned?

(A) LIC of India and GIC Re.
(B) ECGC and Agriculture Insurance Corporation (AIC).
(C) New India Assurance and United India Insurance.
(D) National Insurance and Oriental Insurance.

Ans :

(B) ECGC and Agriculture Insurance Corporation (AIC).
Within the public sector insurance space, apart from the mainstream life, general, and reinsurance companies, there are also specialised insurers. The text identifies two such entities operating in the public sector as of March 2020: the Export Credit Guarantee Corporation of India (ECGC) and the Agriculture Insurance Corporation of India (AIC), which serve specific economic sectors.

Oct/Nov 2024

33. Based on the table 'Registered Insurers and Reinsurers' (Fig 26.4), which statement is incorrect?

(A) The total number of life insurers in India was 24.
(B) The public sector had more re-insurers than the private sector.
(C) The private sector had more general insurers than the public sector.
(D) There were no standalone health insurers operating in the public sector.

Ans :

(B) The public sector had more re-insurers than the private sector.
The table provides a clear breakdown of insurers as of March 2020. It shows that there was only 1 public sector re-insurer (GIC Re), while the private sector had 10 re-insurers. Therefore, the statement that the public sector had more re-insurers than the private sector is incorrect. The other statements are all factually supported by the data in the table.

May/June 2017

34. Which three acts are mentioned as the important governing legislations for the establishment and operations of insurance companies in India?

(A) The Insurance Act 1938, The LIC Act 1956, and The GIBNA 1972.
(B) The IRDA Act 1999, The Companies Act 2013, and The SEBI Act 1992.
(C) The Indian Contract Act 1872, The Transfer of Property Act 1882, and The Banking Regulation Act 1949.
(D) The Indian Life Assurance Companies Act 1912, The Insurance Amendment Act 1950, and The IRDA Act 1999.

Ans :

(A) The Insurance Act 1938, The LIC Act 1956, and The GIBNA 1972.
The text identifies a set of core legislations that govern the insurance sector's operations. The three principal acts mentioned are The Insurance Act, 1938, which is the umbrella legislation; The Life Insurance Corporation Act, 1956, which governs the LIC; and The General Insurance Business (Nationalisation) Act, 1972, which structured the general insurance sector post-nationalisation.

Oct/Nov 2013

35. Under the Insurance Act, 1938, an insurer is required to maintain separate accounts of receipts and payments for which classes of insurance?

(A) Life, Health, and Personal Accident.
(B) Motor, Property, and Liability.
(C) Fire, Marine, and Miscellaneous Insurance.
(D) Life and Non-life insurance.

Ans :

(C) Fire, Marine, and Miscellaneous Insurance.
The Insurance Act, 1938, mandates specific accounting practices to ensure financial transparency and proper risk management. A key provision under its 'Accounts and audit' section requires an insurer to maintain separate and distinct accounts for the receipts and payments corresponding to each major class of general insurance, which are specified as Fire, Marine, and Miscellaneous Insurance.

May/June 2008

36. What does the 'Prohibition of Rebates' provision under the Insurance Act, 1938, forbid?

(A) Insurers providing volume-based discounts on bulk policy purchases made by large corporate clients.
(B) Policyholders being allowed to pay their annual premiums in monthly or quarterly

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installments.
(C) Reinsurance companies offering preferential pricing or rates to certain favoured insurance companies.
(D) Offering a rebate of premium or commission as an inducement to purchase a policy.

Ans :

(D) Offering a rebate of premium or commission as an inducement to purchase a policy.
To ensure fair practice and prevent unethical competition, the Insurance Act, 1938, includes a specific 'Prohibition of Rebates' clause. This provision strictly prohibits any person from offering any part of their commission or a rebate on the premium payable on the policy as an inducement for a prospective customer to purchase an insurance policy.

Oct/Nov 2009

37. Match the provision of the Insurance Act, 1938 (List-I) with its correct description (List-II).
List-I
P. Registration
Q. Investments
R. Limitation on management expenses
S. Powers of Investigation
List-II
1. Prescribes maximum limits on operational costs relative to gross direct business.
2. Central Government can order an inquiry into the affairs of any insurer.
3. Insurers must obtain a Certificate from the Controller, to be renewed annually.
4. Are usually made in approved instruments as per Central Government guidelines.
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

Ans :

(A) P-3, Q-4, R-1, S-2
The Insurance Act, 1938, contains several key provisions. 'Registration' requires obtaining a certificate renewed annually. 'Investments' must follow government guidelines for approved securities. 'Limitation on management expenses' caps costs as a percentage of business. 'Powers of Investigation' allow the Central Government to order a probe into an insurer, matching the options correctly as P-3, Q-4, R-1, S-2.

May/June 2006

38. What was the initial capital contribution from the Government of India for the formation of the Life Insurance Corporation of India (LIC) in 1956?
(A) Rs. 1 crore
(B) Rs. 5 crores
(C) Rs. 75 crores
(D) Rs. 100 crores

Ans :

(B) Rs. 5 crores
When the Life Insurance Corporation of India (LIC) was formed in September 1956, following the nationalisation of the life insurance sector, it was established with an initial capital contribution from the Government of India. The amount of this initial capital infusion to set up the monolithic state-owned insurer was Rs. 5 crores.

Oct/Nov 2018

39. Which of the following is NOT an objective of the LIC as laid down by the LIC Act, 1956?
(A) To conduct business with utmost economy in a spirit of trusteeship.
(B) To charge premium not higher than warranted by strict actuarial considerations.
(C) To invest funds for obtaining maximum yield for policyholders consistent with safety.
(D) To maximise profits for the Government of India as its sole shareholder.

NODIA

Ans :

(D) To maximise profits for the Government of India as its sole shareholder.
The LIC Act, 1956, established the LIC's objectives with a focus on policyholders' interests. These include acting as a trustee, ensuring economical operations, charging fair premiums based on actuarial science, and investing for maximum safe yields for policyholders. Maximising profit for the government is not stated as a primary objective; the focus is on the policyholders' welfare.

May/June 2015

40. Under Section 37 of the LIC Act, 1956, the Central Government provides guarantees for sums assured and bonuses. Which type of policies is explicitly excluded from this guarantee?
(A) ULIP policies
(B) Endowment policies

(C) Term insurance policies
(D) Whole life policies

Ans :

(A) ULIP policies
Section 37 of the LIC Act is a crucial provision that provides a sovereign guarantee for the policies issued by LIC. It states that the sums assured and any declared bonuses are guaranteed by the Central Government. However, the text explicitly mentions that this guarantee does not extend to Unit Linked Insurance Policies (ULIPs), where the investment risk is borne by the policyholder.

Oct/Nov 2005

41. The General Insurance Business (Nationalisation) Act, 1972, gave effect to which clause of the Indian Constitution?
(A) Article 14 (Equality before law)
(B) Article 19(1)(g) (Freedom to practice any profession)
(C) Article 39(c) (Prevention of concentration of wealth)
(D) Article 300A (Right to property)

Ans :

(C) Article 39(c) (Prevention of concentration of wealth)
The nationalisation of general insurance was driven by a specific socio-economic principle enshrined in the Constitution. The GIBNA, 1972, was enacted to give effect to Article 39(c) of the Directive Principles of State Policy, which directs the state to ensure that the economic system does not result in the concentration of wealth to the common detriment.

May/June 2025

42. Which of the following is listed as an objective of the General Insurance Business (Nationalisation) Act, 1972?
(A) To prevent insurance of property in India with insurers having a principal office outside India.
(B) To facilitate the merger of all general insurance companies into a single monolithic entity, the General Insurance Corporation.
(C) To establish a system for setting and regulating premium rates for all classes of general insurance business.
(D) To mandate the transfer of ownership and control of all general insurers to the Reserve Bank of India.

Ans :

(A) To prevent insurance of property in India with insurers having a principal office outside India.
The text lists several objectives of the GIBNA, 1972. Among them is the specific goal to "ensure that no person shall take insurance in respect of any property in India with an insurer whose principal registered office is outside India." This was intended to promote domestic insurance business and retain capital within the country's economic system.

Oct/Nov 2014

43. What is the fundamental difference between an insurance agent and an insurance broker?
(A) An agent is an individual, while a broker is always a corporate entity.
(B) An agent can sell both life and general policies, while a broker is restricted to one category.
(C) An agent is paid a salary by the insurer, while a broker is paid a fee by the policyholder.
(D) An agent represents one insurance company, while a broker can deal with multiple insurers.

Ans :

(D) An agent represents one insurance company, while a broker can deal with multiple insurers.
The key distinction lies in their representation. An insurance agent is tied and represents a single insurance company (one life, one general, and one health). In contrast, an insurance broker is independent and represents the customer. A broker can deal with policies from more than one life or general insurance company, offering a wider choice to the client.

May/June 2011

44. What is the primary role of an insurance broker?
(A) To solicit and procure insurance business for a single designated insurance company.
(B) To advise customers about the choice of insurance products and companies.
(C) To underwrite complex risks on behalf of insurance companies.
(D) To investigate and settle insurance claims for the insurer.

Ans :

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(D) Dr. B. R. Ambedkar
The Reserve Bank of India was conceptualized following the guidelines, working style, and outlook presented by Dr. B. R. Ambedkar in his book titled "The Problem of the Rupee - Its origin and its solution". This work, along with the recommendations of the Hilton-Young Commission, provided the intellectual foundation for the creation of India's central bank.

Oct/Nov 2022

5. The recommendations of which commission, also known as the Hilton-Young Commission, were instrumental in the establishment of the Reserve Bank of India?
(A) The Royal Commission on Indian Agriculture
(B) The Simon Commission on Indian Constitutional Reform
(C) The Royal Commission on Indian Currency and Finance
(D) The Butler Commission on Indian States

Ans :

(C) The Royal Commission on Indian Currency and Finance
The establishment of the RBI was based on the recommendations of the 1926 Royal Commission on Indian Currency and Finance. This commission is more popularly known as the Hilton-Young Commission. It thoroughly examined the monetary and financial system of India and strongly advocated for the creation of a separate central bank to manage these functions effectively.

May/June 2018

6. The Reserve Bank of India was nationalised on 1st January 1949 under which specific Act?
(A) The Reserve Bank of India Act, 1934
(B) The Reserve Bank of India (Transfer to Public Ownership) Act, 1948
(C) The Banking Regulation Act, 1949
(D) The State Bank of India Act, 1955

Ans :

(B) The Reserve Bank of India (Transfer to Public Ownership) Act, 1948
While the RBI was established under the RBI Act of 1934, it began as a private statutory company. Its transition to full government ownership was accomplished through a separate piece of legislation. The nationalisation took place on 1st January 1949, in accordance with the provisions of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948.

Oct/Nov 2016

7. What is the composition of the Central Board of Directors of the Reserve Bank of India?
(A) Governor, 2 Deputy Governors, 10 Directors nominated by the government, and 4 officials from the Finance Ministry.
(B) Governor, 4 Deputy Governors, 12 Directors from various fields, and 2 government officials from the Planning Commission.
(C) Governor, 3 Deputy Governors, 15 Directors representing states, and 1 government official from the RBI Central Board.
(D) Governor, 4 Deputy Governors, 10 Directors nominated by the government, 2 government officials, and 4 directors from local boards.

Ans :

(D) Governor, 4 Deputy Governors, 10 Directors nominated by the government, 2 government officials, and 4 directors from local boards.
The control of the RBI is vested in its Central Board of Directors. This board comprises the Governor, four Deputy Governors, ten non-official Directors nominated by the Union Government from various fields, two government officials, and four other directors, with one nominated from each of the four local boards, ensuring a broad-based governance structure.

May/June 2014

8. Arrange the following events in the history of the Reserve Bank of India in chronological order:
I. Nationalisation of RBI
II. Permanent transfer of RBI's Central Office to Mumbai
III. Establishment of RBI
IV. Enactment of the RBI Act
(A) IV, III, II, I
(B) III, IV, II, I
(C) IV, II, III, I
(D) II, IV, III, I

Ans :

(A) IV, III, II, I
The correct chronological sequence is: Enactment of the RBI Act (March 1934), followed by the Establishment of RBI (1st April 1935), then the permanent transfer of its Central Office from Kolkata to Mumbai (1937), and finally, the Nationalisation of RBI (1st January 1949).

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Oct/Nov 2008

49. What is the current percentage of obligatory or statutory cessions that direct insurers must make to GIC Re?
(A) 20%
(B) 5%
(C) 15%
(D) 10%

Ans :

(B) 5%
The percentage for mandatory cessions to the national reinsurer has been progressively reduced over the years to increase market competition and retention. After being at 20%, 15%, and 10% in previous periods, the text states that the obligatory cessions that direct insurers must cede are, at present, set at 5%.

May/June 2021

50. What major change occurred due to the General Insurance Business (Nationalisation) Amendment Act, 2002, which came into force from March 21, 2003?
(A) GIC ceased to be the holding company of its subsidiaries.
(B) GIC was re-established as the holding company of its four subsidiaries.
(C) All private reinsurers were asked to exit the Indian market.
(D) The statutory cession requirement was completely abolished.

Ans :

(A) GIC ceased to be the holding company of its subsidiaries.
The GIBNA Amendment Act of 2002 marked the final step in the restructuring of the public sector general insurance industry. With this amendment taking effect on March 21, 2003, the General Insurance Corporation of India (GIC) formally ceased to be the holding company of the four nationalised general insurers, which were already operating independently.

Oct/Nov 2016

51. What is the current structure of the reinsurance market in India?
(A) A complete monopoly held by the public sector national reinsurer, GIC Re, with no other players.
(B) A mix of one national reinsurer and several other private and foreign reinsurers.
(C) A market where only branches of foreign reinsurance companies are permitted to operate and accept risk.
(D) A duopoly structure shared between GIC Re and another entity known as the Indian Reinsurance Corporation.

Ans :

(B) A mix of one national reinsurer and several other private and foreign reinsurers.
The Indian reinsurance market has transitioned from a public sector monopoly to a more competitive environment. At present, the market comprises the national reinsurer, GIC Re, along with 10 other reinsurers. This group includes private players, Foreign Reinsurers' Branches (FRBs), and Lloyd's India, making a total of 11 reinsurers operating in the domestic market.

May/June 2018

52. On what date did the IRDA launch the insurance repository system in India?
(A) August 15, 2012
(B) September 16, 2013
(C) January 1, 2014
(D) April 1, 2015

Ans :

(B) September 16, 2013
To enhance service quality for policyholders and promote dematerialisation of policies, the Insurance Regulatory and Development Authority (IRDA) introduced a new system. The insurance repository system was formally launched on September 16, 2013, enabling insurance policies to be held in an electronic format, similar to how shares are held in a demat account.

Oct/Nov 2011

53. What is the primary function of an 'Insurance Repository'?
(A) To sell insurance policies from various insurers online.
(B) To provide ratings and reviews of insurance companies.
(C) To hold insurance policies in electronic form on behalf of insurers.
(D) To settle claims between the policyholder and the insurer.

Ans :

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The pairing for the incorrect option is wrong. While the IRDA was constituted as an autonomous body in 1999, the text specifies that it opened up the market with an invitation for applications for registrations in August 2000. The other pairs are factually correct as per the provided chapter content: Act of 1928, Council in 1957, and de-linking bill in 2002.

May/June 2014

70. What does Section 38 of the LIC Act, 1956, provide?

(A) It provides that LIC cannot be wound up by company laws unless directed by the Central Government.

(B) It specifies the maximum limit of expenses that LIC can incur.

(C) It grants LIC the exclusive privilege to conduct life insurance business.

(D) It details the investment norms that LIC must follow for its controlled funds.

Ans :

(A) It provides that LIC cannot be wound up by company laws unless directed by the Central Government.

Section 38 of the LIC Act, 1956, provides a unique statutory protection to the corporation. It stipulates that the Life Insurance Corporation of India cannot be terminated or dissolved through any law related to the winding up of companies or corporations, except by a specific order and direction from the Central Government itself.

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NODIA

all policy benefits due to his status as the authorised representative.
(B) He can access the account to facilitate claims but is not a beneficiary unless also named a nominee.
(C) He is legally entitled to 50% of the policy benefits, with the remaining 50% distributed to the legal heirs.
(D) His role is immediately terminated upon demise, and only the official nominee can interact with the repository.

Ans :

(B) He can access the account to facilitate claims but is not a beneficiary unless also named a nominee.
The role of an 'authorised representative' in an e-IA is specifically defined. This person is appointed to operate the account and intimate the repository in case of the policyholder's demise or incapacity. They act only as a facilitator and are not entitled to receive policy benefits by virtue of this role, unless they are also separately designated as a 'nominee' or 'assignee'.

Oct/Nov 2010

59. Which of the following statements about an e-Insurance Account (e-IA) is incorrect?
(A) An e-IA is offered free of cost to applicants.
(B) An individual who does not have an insurance policy can open an e-IA.
(C) Existing paper policies cannot be converted into electronic format.
(D) A service request can be made to the insurer or repository to dematerialise a policy.

Ans :

(C) Existing paper policies cannot be converted into electronic format.
One of the primary benefits of the insurance repository system is the ability to consolidate all policies, including existing ones. The statement that paper policies cannot be converted is incorrect. The process allows a policyholder to make a service request to their insurer or the repository to convert their existing physical policy documents into electronic form.

May/June 2019

60. Assertion (A): With the FDI limit in insurance raised to 74%, foreign entities can gain control over Indian insurance companies.
Reason (R): An equity stake of 74% allows the foreign investor to appoint a majority of directors and control management and policy decisions.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

NODIA

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that a 74% FDI limit allows foreign control is true. The reason correctly explains why this is the case: holding such a large majority stake gives the investor the power to appoint a majority on the board of directors, which in turn allows them to control the company's management and strategic policy decisions.

Oct/Nov 2017

61. Identify the incorrect statement regarding the history of insurance in India.
(A) The Oriental Life Insurance Company, established in 1818 in Calcutta, was the first life insurance company in India.
(B) The General Insurance Business (Nationalisation) Act was passed in 1956.
(C) The Indian Life Assurance Companies Act of 1912 was the first statutory measure to regulate life business.
(D) The Malhotra Committee, set up in 1993, recommended allowing private sector entry into the insurance industry.

Ans :

(B) The General Insurance Business (Nationalisation) Act was passed in 1956.
This statement contains a factual error regarding the timeline of nationalisation. The life insurance sector was nationalised in 1956. However, the General Insurance Business (Nationalisation) Act, which nationalised the non-life sector, was passed much later in 1972. The other statements about the first life insurer, the 1912 Act, and the Malhotra Committee are historically accurate.

May/June 2012

62. Statement I: Insurance penetration is calculated as the ratio of premium to population and expressed in USD.
Statement II: Insurance density is measured as the percentage of insurance premium to GDP.

(C) To hold insurance policies in electronic form on behalf of insurers.

An Insurance Repository is an entity licensed by the IRDAI with the specific function of maintaining insurance policies in an electronic, or dematerialised, form. It acts as a custodian of e-policies on behalf of insurers and provides a single view of all policies to the policyholder. Repositories are not authorised to sell insurance policies.

May/June 2013

54. At the time of the chapter's writing, which types of policies were allowed to be held in an e-Insurance Account?

(A) Only motor and health insurance policies.
(B) Only life insurance policies and pension plans.
(C) All types of life and general insurance policies.
(D) Only policies issued by public sector insurance companies.

Ans :

(B) Only life insurance policies and pension plans.

The rollout of the e-insurance facility was done in phases. The text states that at present, the system allows only life insurance policies and pension plans to be converted into electronic form and held in an e-Insurance Account. It is, however, expected that the facility will be extended to other general insurance policies in the future.

Oct/Nov 2020

55. Which of the following is NOT one of the five entities licensed by IRDA to act as an insurance repository?

(A) NSDL Database Management Ltd
(B) Life Insurance Corporation of India (LIC)
(C) CAMS Repository Services Ltd
(D) Central Insurance Repository Ltd

Ans :

(B) Life Insurance Corporation of India (LIC)

The IRDA has licensed specific entities to perform the function of an insurance repository. The text names five such entities: NSDL Database Management Ltd, Central Insurance Repository Ltd, SHCIL Projects Ltd, Karvy Insurance Repository Ltd, and CAMS Repository Services Ltd. The Life Insurance Corporation of India (LIC) is an insurer, not a repository.

May/June 2007

56. What is the rule regarding the number of e-Insurance Accounts (e-IA) a person can have?

(A) A person can open one e-IA with each of the five repositories.
(B) A person can open one e-IA for life policies and another for general policies.
(C) A person can open only one e-Insurance Account.
(D) There is no limit on the number of e-IAs a person can open.

Ans :

(C) A person can open only one e-Insurance Account.

To maintain a single, consolidated view of a policyholder's portfolio, the IRDAI has set a clear rule for e-Insurance Accounts. A policyholder can open an account with any of the approved repositories, but the regulations specify that an individual is allowed to have only one e-Insurance Account (e-IA) across all repositories.

Oct/Nov 2012

57. Which of the following is a feature of the e-Insurance Account (e-IA)?

(A) The account is chargeable with a small annual maintenance fee.
(B) An individual must have an existing policy to open an e-IA.
(C) Each account has a unique number, and the holder gets a Login ID and Password.
(D) The e-IA can only be operated by the policyholder and cannot have a nominee.

Ans :

(C) Each account has a unique number, and the holder gets a Login ID and Password.

The e-Insurance Account system is designed for secure and unique access. A key feature is that each e-IA is assigned a unique account number. To access the account and view the e-policies online, the account holder is provided with a unique Login ID and a corresponding Password, ensuring the confidentiality and security of their policy data.

May/June 2024

58. Ms. Priya opens an e-Insurance Account and appoints her brother, Mr. Arjun, as the 'authorised representative'. In the event of Ms. Priya's demise, what is Mr. Arjun's role and entitlement?

(A) He automatically inherits and receives

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reinsurance obligation known as a statutory cession. As per Section 101A of the Insurance Act, every general insurer must reinsure a certain percentage (currently 5%) of the sum insured on each policy with specified Indian reinsurer(s), making this a compulsory part of their risk management.

May/June 2009

66. A customer, Mr. Khan, wants to buy a motor insurance policy for his car and a comprehensive health insurance plan for his family. He approaches an insurance agent who represents 'ABC Life Insurance Co.'. What is the most likely advice the agent will give?

(A) The agent can sell him a life insurance policy but cannot help with general insurance products.
(B) The agent can sell him both the motor and health policies directly.
(C) The agent will advise him to approach a broker who can offer products from multiple general insurers.
(D) The agent will refer him to another agent from the same life insurance company.

Ans :

(A) The agent can sell him a life insurance policy but cannot help with general insurance products. The case highlights the limitation of a tied agent. An agent represents a specific company. Since the agent represents 'ABC Life Insurance Co.', they are only authorized to sell life insurance products. Motor and health insurance are general insurance products, which are outside the agent's purview. A composite agent could represent one general insurer, but this agent is specified as being from a life company.

Oct/Nov 2015

67. Which of the following correctly represents the chronological order of these legislative/ regulatory events in the Indian insurance sector?

1. Enactment of the General Insurance Business (Nationalisation) Act.
2. Establishment of the IRDA as a statutory body.
3. Enactment of the Indian Life Assurance Companies Act.
4. Setting up of the R N Malhotra Committee.

(A) 3, 1, 4, 2
(B) 1, 3, 4, 2
(C) 3, 4, 1, 2
(D) 4, 3, 2, 1

Ans :

(A) 3, 1, 4, 2
The correct chronological sequence is: The Indian Life Assurance Companies Act was enacted in 1912 (3). The General Insurance Business (Nationalisation) Act was passed in 1972 (1). The R N Malhotra Committee was set up in 1993 (4). Finally, the IRDA was incorporated as a statutory body in April 2000 (2).

May/June 2020

68. Which of the following statements are correct?

1. The first life insurance company in India was established in Calcutta in 1818.
2. The Tariff Advisory Committee was set up as part of the 1968 amendment to the Insurance Act.
3. GIC was converted into a national re-insurer in December 2000.
4. The FDI limit in insurance intermediaries is 74%.

(A) 1 and 2 only
(B) 1, 2, and 3 only
(C) 3 and 4 only
(D) All 1, 2, 3, and 4

Ans :

(B) 1, 2, and 3 only
Statement 1 is correct (Oriental Life, 1818). Statement 2 is correct (1968 amendment). Statement 3 is correct (GIC became a reinsurer in Dec 2000). Statement 4 is incorrect; the text states that a 2019 notification allowed 100% FDI in insurance intermediaries, not 74%, which is the limit for insurance companies themselves.

Oct/Nov 2021

69. Identify the incorrect pair of Act/Event and its corresponding year.

(A) Formation of General Insurance Council : 1957
(B) IRDA opened up the market for private players : 1999
(C) Indian Insurance Companies Act : 1928
(D) GIC subsidiaries de-linked from GIC by a Parliament bill : 2002

Ans :

(B) IRDA opened up the market for private players : 1999

NODIA

(B) To advise customers about the choice of insurance products and companies.
Unlike an agent whose primary role is to sell products for one company, a broker's main function is to serve as an advisor to the customer. The broker's primary job is to provide advice to the insured on the various insurance products and companies available in the market, helping them choose the most suitable coverage without being charged a fee.

Oct/Nov 2019

45. An insurance intermediary, Mr. Sharma, offers to pay the first two premium installments from his own pocket to convince a client, Mrs. Gupta, to buy a life insurance policy. This action would be a violation of which provision?
(A) Section 37 of the LIC Act, 1956
(B) The IRDA (Insurance Brokers) Regulations, 2002
(C) Section 41 of the Insurance Act, 1938
(D) The GIBNA, 1972

Ans :

(C) Section 41 of the Insurance Act, 1938
The scenario describes an intermediary offering an inducement (a rebate of premium) to a prospective policyholder. This is a direct violation of the rules against rebating. The text explicitly states that such an inducement is deemed a violation of the provisions of Section 41 of the Insurance Act, 1938, subjecting the involved parties to prosecution.

May/June 2016

46. What is the core function of reinsurance?
(A) To act as a master agent, selling policies directly to the public on behalf of multiple primary insurers.
(B) To serve as a central authority for regulating the premium rates charged by all primary insurance companies.
(C) To provide a sovereign or government-backed guarantee for all insurance policies issued within a country.
(D) To transfer a portion of an insurer's underwritten risk to another entity.

Ans :

(D) To transfer a portion of an insurer's underwritten risk to another entity.
Reinsurance is essentially insurance for insurance companies. Its core function involves an insurer (the ceding company) transferring some portion of the risks it has underwritten to another company, known as a reinsurer. This process helps the primary insurer manage its risk exposure, enhances its capacity to take on more business, and reduces financial volatility.

Oct/Nov 2022

47. What is a 'ceding company' in the context of reinsurance?
(A) The insurance company that transfers its risk portfolio to a reinsurer.
(B) The reinsurance company that accepts the risk.
(C) The regulatory body that approves the reinsurance contract.
(D) The intermediary who arranges the reinsurance deal.

Ans :

(A) The insurance company that transfers its risk portfolio to a reinsurer.
In a reinsurance transaction, the 'ceding company' is the original or primary insurer. This is the company that has underwritten the initial policies and then 'cedes,' or passes on, a portion of that insurance portfolio and its associated risk to a reinsurer. The ceding company remains liable to the original policyholder for claims.

May/June 2010

48. Under Section 101A of the Insurance Act 1938, every insurer is obliged to reinsure a certain percentage of the sum insured on each general insurance policy with whom?
(A) Any foreign reinsurer of their choice.
(B) Indian reinsurer(s) as specified by IRDA.
(C) The General Insurance Corporation of India exclusively.
(D) A pool created by all public sector insurers.

Ans :

(B) Indian reinsurer(s) as specified by IRDA.
Section 101A of the Insurance Act, 1938, mandates a system of compulsory or 'statutory' cessions. It obliges every general insurer operating in India to reinsure a specified percentage of the sum insured on each policy. This portion must be ceded to one or more Indian reinsurers, with the specific percentage and terms being stipulated by the IRDA.

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CHAPTER 27

Indian Financial System – Regulators & Their Roles

Oct/Nov 2018

1. Which of the following is considered a primary rationale for the prudent regulation of a financial system?

(A) To maximize the profitability of financial institutions by actively reducing market competition.

(B) To maintain and promote public confidence and trust in the financial system.

(C) To centralize all financial decision-making exclusively within government-controlled bodies.

(D) To ensure that all financial instruments offer legally guaranteed returns to market participants.

Ans :

(B) To maintain and promote public confidence and trust in the financial system.

The core purpose of financial regulation is to ensure the smooth and fair functioning of the financial system, which deals with public money. This requires generating and maintaining public trust by preventing misuse and imprudence by market players, thereby protecting the interests of investors and the stability of the economy, much like a policeman on a busy street.

May/June 2021

2. According to the foundational principles of financial regulation, which of the following is NOT a stated objective?

(A) To guarantee specific profit levels for all market participants.

(B) To protect investor's interests through adequate and timely disclosure.

(C) To ensure that financial markets are both fair and efficient.

(D) To ensure market participants adhere to the established rules of the marketplace.

Ans :

(A) To guarantee specific profit levels for all market participants.

Financial regulation aims to create a fair, efficient, and transparent environment. It ensures that participants follow rules and investors are protected through information disclosure. However, regulation does not guarantee profits for any participant, as investment outcomes are subject to market risks and individual decisions. The goal is a level playing field, not a guaranteed outcome for everyone.

Oct/Nov 2010

3. Legislation to establish the Reserve Bank of India was first introduced in January 1927, but the enactment became an accomplished fact in which year?

(A) 1927

(B) 1935

(C) 1934

(D) 1949

Ans :

(C) 1934

Although the initial legislative process for setting up a central bank for India began in January 1927, it took seven more years for the law to be passed. The Reserve Bank of India Act, which provided the statutory basis for the bank's functioning, was finally enacted in March 1934, leading to its establishment the following year.

May/June 2005

4. The conceptualization of the Reserve Bank of India was based on the guidelines and outlook presented in a book by which eminent personality?

(A) Jawaharlal Nehru

(B) Sardar Vallabhbhai Patel

(C) C. D. Deshmukh

(D) Dr. B. R. Ambedkar

Ans :

NODIA

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, and Statement II is incorrect.
(D) Statement I is incorrect, and Statement II is correct.

Ans :

(B) Both Statement I and Statement II are incorrect.
The statements have swapped the definitions of the two key metrics. Insurance penetration is measured as the percentage of premium to GDP, not the ratio to population. Conversely, insurance density is the ratio of premium to population (per capita premium in USD), not the percentage of premium to GDP. Therefore, both statements are factually incorrect.

Oct/Nov 2006

63. Consider the following statements about the Life Insurance Corporation (LIC) of India:
1. It was formed in 1956 with a capital of Rs. 5 crores from the Government of India.
2. Section 37 of the LIC Act provides a Central Government guarantee for all policies, including ULIPs.
3. The LIC had an exclusive privilege to transact life insurance business in India, which was done away with in 1999.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 3 only
Statement 1 is correct as LIC was formed in 1956 with a Rs. 5 crore capital contribution. Statement 3 is also correct as LIC's monopoly ended with amendments in 1999. However, Statement 2 is incorrect because the text explicitly mentions that the government guarantee under Section 37 does not apply to ULIP policies.

May/June 2022

64. Read the following excerpt: "Globally, the share of life insurance business in total premium was 46.34% and the share of non-life insurance premium was 53.66% during 2019. However, the share of life insurance business for India was high at 74.94%, while the share of non-life insurance business was at 25.06%." What can be inferred from this data?
(A) The Indian insurance market has a significantly stronger orientation towards life insurance products compared to the global average.
(B) The Indian insurance market is structurally similar to the global market.
(C) Non-life insurance is the dominant sector in both India and the world.
(D) Global consumers spend more on life insurance than on non-life insurance.

Ans :

(A) The Indian insurance market has a significantly stronger orientation towards life insurance products compared to the global average.
The data highlights a major structural difference. While globally the market is slightly tilted towards non-life insurance (53.66%), the Indian market is overwhelmingly dominated by life insurance (74.94%). This stark contrast clearly indicates that the Indian insurance market has a much heavier focus and consumer preference for life insurance products compared to the worldwide average.

Oct/Nov 2023

65. A new general insurance company, 'Suraksha General Insurance', starts its operations in India. The company's management is planning its risk transfer strategy. What is their primary mandatory obligation regarding reinsurance in India?
(A) To cede a statutorily fixed percentage of each policy's sum insured to an Indian reinsurer.
(B) To reinsure the entirety of their risk portfolio, equivalent to 100%, exclusively with foreign reinsurers.
(C) To have complete freedom to choose whether or not to engage in any reinsurance activities whatsoever.
(D) To cede a mandatory 50% of their total business portfolio to the General Insurance Corporation of India (GIC Re).

Ans :

(A) To cede a statutorily fixed percentage of each policy's sum insured to an Indian reinsurer.
The case describes a new insurer planning its strategy. In India, there is a mandatory

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This sequence marks the key milestones in the formation and evolution of the central bank.

Oct/Nov 2007

9. Which of the following is NOT listed as a main objective of the Reserve Bank of India in specific terms?

(A) To maintain monetary stability for the welfare gains of a mixed economy.
(B) To maintain stable payment systems for safe and efficient financial transactions.
(C) To directly finance the fiscal deficit of the central government.
(D) To regulate the overall volume of money and credit to ensure price stability.

Ans :

(C) To directly finance the fiscal deficit of the central government.
The RBI's objectives include maintaining monetary and financial stability, ensuring stable payment systems, and regulating money and credit for price stability. While it acts as the government's banker and debt manager, directly financing the fiscal deficit is not a stated primary objective. Its role is to manage government debt in a cost-effective manner and maintain overall economic stability.

May/June 2025

10. The preamble of the RBI Act, 1934, explicitly states that the Reserve Bank is constituted to regulate the issue of bank notes and the keeping of reserves with a view to...

(A) securing monetary stability in India.
(B) maximizing profits for the government.
(C) funding all public sector undertakings.
(D) controlling all commercial activities in the country.

Ans :

(A) securing monetary stability in India.
The preamble of the Reserve Bank of India Act, 1934, clearly defines its core purpose. It states the bank's constitution is to regulate the issue of bank notes and maintain reserves to secure monetary stability in India and to operate the currency and credit system of the country to its advantage, highlighting its fundamental role in economic management.

NODIA

Oct/Nov 2019

11. Which of the following pairs of RBI's roles and its description is identified correctly?

(A) Issuer of Currency: Manages the government's domestic debt and borrowing programme.
(B) Banker to Banks: Regulates the foreign exchange market as per FEMA, 1999 guidelines.
(C) Developmental Role: Conducts supervision of payment and settlement systems for stability.
(D) Monetary Authority: Uses instruments to regulate the availability, cost, and use of money and credit.

Ans :

(D) Monetary Authority: Uses instruments to regulate the availability, cost, and use of money and credit.
The role of the Monetary Authority correctly corresponds to the use of policy instruments to manage money and credit to achieve economic objectives like stable inflation and growth. The other pairs are mismatched: Issuer of Currency deals with notes, Banker and Debt Manager to Government manages debt, and Manager of Foreign Exchange regulates the forex market.

May/June 2009

12. As a part of its monetary policy framework, the RBI uses a 'multiple indicator approach'. What does this approach entail?

(A) Focusing solely on the headline inflation rate to determine all monetary policy actions.
(B) Monitoring and analysing a wide range of economic and financial indicators for policy decisions.
(C) Relying exclusively on the foreign exchange rate and associated capital flows.
(D) Using only direct instruments like CRR and SLR to implement all policy changes.

Ans :

(B) Monitoring and analysing a wide range of economic and financial indicators for policy decisions.
The multiple indicator approach signifies that the RBI does not rely on a single variable to formulate monetary policy. Instead, it monitors and analyses the movement of numerous indicators, including interest rates, inflation, money supply,

(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-3, R-1, S-4

Ans :

(A) P-4, Q-3, R-1, S-2
RTGS (Real Time Gross Settlement) is a large-value system for immediate fund transfers. NACH (National Automated Clearing House) is used for bulk payments like salaries. NUUP (National Unified USSD Platform) facilitates mobile banking via USSD. CTS (Cheque Truncation System) involves electronic clearing of cheques. Therefore, the correct matching is P-4, Q-3, R-1, S-2.

Oct/Nov 2025

38. The RBI established a dedicated Financial Stability Unit in 2009. What is one of its key activities?
(A) Auditing the accounts of individual commercial banks.
(B) Publishing the half-yearly Financial Stability Report (FSR).
(C) Setting the policy repo rate every two months.
(D) Approving licenses for new banking entities.

Ans :

(B) Publishing the half-yearly Financial Stability Report (FSR).
The Financial Stability Unit (FSU) was created to continuously monitor the macro-financial system. A primary output of this unit is the Financial Stability Report (FSR), first published in March 2010. This report, now released on a half-yearly basis in June and December, assesses the resilience of the financial system and identifies potential systemic risks.

May/June 2012

39. The Governor of the Reserve Bank of India is the ex-officio chairperson of which important body related to financial stability?
(A) The main Financial Stability and Development Council (FSDC).
(B) The Board for Financial Supervision (BFS).
(C) The Monetary Policy Committee (MPC).
(D) The Sub-Committee of the FSDC.

Ans :

(D) The Sub-Committee of the FSDC.
The Financial Stability and Development Council (FSDC) is the apex body for financial stability, chaired by the Union Finance Minister. The RBI Governor plays a critical role as the ex-officio chairperson of the FSDC's Sub-Committee, which is the council's main operating arm responsible for inter-regulatory coordination and addressing systemic risk issues on an ongoing basis.

Oct/Nov 2014

40. Which of the following institutions was established by the RBI in 1962 to provide protection to bank depositors and guarantee credit facilities to small borrowers?
(A) Deposit Insurance and Credit Guarantee Corporation (DICGC)
(B) Unit Trust of India (UTI)
(C) Industrial Development Bank of India (IDBI)
(D) National Bank for Agriculture and Rural Development (NABARD)

Ans :

(A) Deposit Insurance and Credit Guarantee Corporation (DICGC)
As part of its developmental role, the RBI established the Deposit Insurance and Credit Guarantee Corporation (DICGC) in 1962. This institution serves a dual purpose: it provides insurance protection to depositors in banks up to a certain limit and offers guarantee cover to banks for the credit facilities they extend to specific categories of small borrowers.

May/June 2019

41. Assertion (A): The regulation of Urban Cooperative Banks (UCBs) in India involves dual control.
Reason (R): The RBI is the regulatory authority for their banking operations, while managerial aspects fall under the purview of state governments through cooperative societies acts.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion of dual control over UCBs is true, and the reason correctly explains this structure. The Reserve Bank of India, under the Banking Regulation Act, 1966, governs the banking-related

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minimum (floor) or maximum (ceiling) rate, allowing for dynamic liquidity management.

Oct/Nov 2005

17. Which of the following assets is NOT eligible for being included in the maintenance of the Statutory Liquidity Ratio (SLR) by a Scheduled Commercial Bank?
(A) Cash
(B) Shares of publicly listed corporations
(C) Gold valued at a price not exceeding the current market price
(D) Investment in specified instruments referred to as "SLR securities"

Ans :

(B) Shares of publicly listed corporations
Statutory Liquidity Ratio (SLR) requires banks to maintain a proportion of their NDTL in high-quality liquid assets. The eligible assets specifically include cash, gold valued at or below market price, and certain government-approved securities. Shares of private or public corporations are not considered eligible assets for the purpose of SLR maintenance due to their inherent price volatility.

May/June 2020

18. What is the primary function of the Liquidity Adjustment Facility (LAF)?
(A) To facilitate daily injection and absorption of liquidity on a repurchase basis using government securities.
(B) To manage medium-term liquidity through outright sales and purchases of government securities.
(C) To provide long-term loans of one-year and three-year tenors to banks at the policy rate.
(D) To absorb excess liquidity by issuing treasury bills on behalf of the government.

Ans :

(A) To facilitate daily injection and absorption of liquidity on a repurchase basis using government securities.
The Liquidity Adjustment Facility (LAF) is the primary tool for managing day-to-day liquidity in the banking system. It consists of daily repo auctions to inject liquidity and reverse repo (or SDF) operations to absorb liquidity. These transactions are conducted on an overnight basis, with government securities serving as the underlying collateral for the operations.

Oct/Nov 2015

19. Under the Marginal Standing Facility (MSF), scheduled commercial banks can borrow overnight from the RBI up to what percentage of their Net Demand and Time Liabilities (NDTL)?
(A) 1% of NDTL
(B) 5% of NDTL
(C) 2% of NDTL
(D) 10% of NDTL

Ans :

(C) 2% of NDTL
The Marginal Standing Facility (MSF) acts as a safety valve against unexpected liquidity shocks. It allows eligible scheduled commercial banks to borrow funds from the RBI on an overnight basis. The maximum amount they can borrow is capped at 2% of their respective Net Demand and Time Liabilities (NDTL), providing a crucial buffer for short-term needs.

May/June 2013

20. The Standing Deposit Facility (SDF) was introduced as the latest addition to the LAF facility. What key feature distinguishes it and what purpose does it serve in the policy corridor?
(A) It provides collateral-free lending to banks and is used to form the cap rate of the policy corridor.
(B) It is used for long-term liquidity injection into the system and has no direct role in the policy corridor.
(C) It is a specialized tool for foreign exchange intervention and helps set the effective exchange rate band.
(D) It absorbs liquidity from banks without requiring collateral from RBI and forms the floor rate.

Ans :

(D) It absorbs liquidity from banks without requiring collateral from RBI and forms the floor rate.
Announced on April 8, 2022, the Standing Deposit Facility (SDF) allows the RBI to absorb liquidity from commercial banks without the need to provide government securities as collateral. Along with the MSF, which acts as the ceiling, the SDF determines the floor of the interest rate policy corridor, replacing the fixed-rate reverse repo.

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credit, exchange rate, trade, capital flows, and fiscal position, along with output trends, to make well-informed policy decisions.

Oct/Nov 2011

13. The Monetary Policy Committee (MPC) was established in 2016 under Section 45ZB of the amended RBI Act. What is the minimum number of times the MPC must meet in a year?

(A) Four times
(B) Eight times
(C) Six times
(D) Twelve times

Ans :

(C) Six times
The amended Reserve Bank of India Act mandates that the Monetary Policy Committee (MPC) must convene for a meeting at least six times in a year. This frequency ensures that the committee can regularly assess the evolving economic situation and make timely decisions on the policy interest rate to achieve the government-set inflation target and support growth.

May/June 2010

14. What is the composition of the Monetary Policy Committee (MPC) of the RBI?

(A) The Governor, two Deputy Governors from commercial banks, and three members appointed from the Ministry of Finance.
(B) The Governor and five external academic members appointed by the Central Government through a search committee.
(C) The Governor, all four Deputy Governors, and one senior member appointed by the Central Government.
(D) The Governor, the Deputy Governor in-charge of monetary policy, one RBI officer, and three members appointed by the Central Government.

Ans :

(D) The Governor, the Deputy Governor in-charge of monetary policy, one RBI officer, and three members appointed by the Central Government.
The Monetary Policy Committee (MPC) is a six-member body. It consists of the Governor of the RBI as its chairperson, the Deputy Governor in-charge of monetary policy, one officer of the RBI nominated by the Central Board, and three external members appointed by the Central Government, bringing a mix of internal and external expertise to policy decisions.

Oct/Nov 2024

15. With respect to the Cash Reserve Ratio (CRR), which of the following statements is correct?

(A) RBI does not pay any interest on the CRR balances maintained by Scheduled Commercial Banks.
(B) RBI is required by law to pay interest on CRR balances at the prevailing repo rate.
(C) CRR has a statutorily fixed floor and ceiling rate that the RBI cannot breach without parliamentary approval.
(D) CRR is the proportion of NDTL that banks must invest in government securities.

Ans :

(A) RBI does not pay any interest on the CRR balances maintained by Scheduled Commercial Banks.
Cash Reserve Ratio (CRR) is the quantum of cash that banks must hold with the RBI as a proportion of their net demand and time liabilities (NDTL). A key feature of this direct monetary policy instrument is that the Reserve Bank does not pay any interest to the banks on these mandatory reserve balances kept with it.

May/June 2017

16. Under Section 42(1) of the RBI Act, 1934, what authority does the RBI have regarding the prescription of the Cash Reserve Ratio (CRR) for Scheduled Commercial Banks?

(A) It can prescribe the CRR only within a narrow band of 3% to 15%.
(B) It can prescribe the CRR without any floor or ceiling rate.
(C) It must seek parliamentary approval to change the CRR.
(D) It can only adjust the CRR once per financial year.

Ans :

(B) It can prescribe the CRR without any floor or ceiling rate.
Section 42(1) of the Reserve Bank of India Act, 1934, provides the RBI with significant flexibility. It empowers the central bank, having regard to the needs of securing monetary stability, to prescribe the CRR for Scheduled Commercial Banks without being constrained by any statutory

NODIA

(D) ₹5,000

Ans :

(C) ₹10,000
As the nation's sole note-issuing authority, the Reserve Bank of India is empowered by law to issue bank notes of various denominations. The maximum value for a single bank note that the RBI can issue is Rupees ten thousand (₹10,000). Issuing any note of a higher denomination would require an amendment to the Reserve Bank of India Act, 1934.

May/June 2008

26. According to the Coinage Act, 2011, what is the legal tender limit for fifty paise (half rupee) coins?
(A) For any sum not exceeding ten rupees.
(B) For any sum not exceeding one hundred rupees.
(C) For any sum not exceeding one thousand rupees.
(D) They are no longer legal tender.

Ans :

(A) For any sum not exceeding ten rupees.
The legal tender status of coins is defined by the Coinage Act, 2011. While coins of denomination one rupee and above are legal tender for sums up to one thousand rupees, the fifty paise coin has a more limited status. It is considered legal tender for settling any sum that does not exceed a total of ten rupees.

Oct/Nov 2013

27. Read the excerpt from the 'Evolution of Currency Notes in India' box and answer the question below.
"The Government of India printed currency until the RBI was established in 1935, which then took up this responsibility. The ₹5 note was the first paper currency issued by RBI in January 1938... Minting of coins is the responsibility of the Government, and not of the RBI. For this reason, the ₹1 note had the signature of the Finance Secretary of the Government and not the Governor of RBI. This has been so because when the ₹1 note was reintroduced as a war time measure in 1940, it was issued by the Government with the status of a coin."
Why did the one-rupee note historically bear the signature of the Finance Secretary and not the RBI Governor?
(A) The RBI Governor is not authorized to sign notes of small denominations.
(B) The Finance Secretary was the ex-officio head of the RBI in 1940.
(C) All currency notes below ₹10 were considered coins by law.
(D) The one-rupee note was issued by the Government with the status of a coin.

Ans :

(D) The one-rupee note was issued by the Government with the status of a coin.
The excerpt clarifies that the responsibility for minting coins lies with the Government of India, not the RBI. When the one-rupee note was reintroduced in 1940, it was issued by the government and was given the legal status of a coin. Consequently, it carried the signature of the Finance Secretary, representing the issuing authority (Government), not the RBI Governor.

May/June 2015

28. Which of the following is NOT a function performed by the RBI in its role as 'Banker and Debt Manager to the Government'?
(A) Maintaining accounts and facilitating receipts and payments for central and state governments.
(B) Setting the income tax rates and collecting direct taxes on behalf of the government.
(C) Managing the government's domestic debt to raise funds in a cost-effective manner.
(D) Developing the market for government securities to facilitate monetary policy transmission.

Ans :

(B) Setting the income tax rates and collecting direct taxes on behalf of the government.
As the government's banker, the RBI manages its accounts, payments, and debt. It does not, however, have any role in fiscal policy functions such as setting tax rates or the direct collection of taxes from the public. These functions fall under the purview of the Ministry of Finance and its associated departments, such as the Central Board of Direct Taxes.

Oct/Nov 2012

29. What is the 'lender of the last resort' function of the RBI?
(A) Providing unlimited funds to the central government to help finance its annual budget deficit.

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(B) Offering direct, subsidized loans to corporations when they are unable to secure normal commercial credit.
(C) Providing liquidity to banks that are unable to raise short-term funds from the inter-bank market.
(D) Acting as the final court of appeal for resolving disputes between commercial banks and their customers.

Ans :

(C) Providing liquidity to banks that are unable to raise short-term funds from the inter-bank market.
The 'lender of the last resort' is a critical function where the RBI provides emergency liquidity to solvent but temporarily illiquid banks that cannot secure funds from other sources. This action prevents bank failures, protects depositors' interests, and maintains the overall stability of the financial system, thereby preventing a potential systemic crisis from spreading.

May/June 2011

30. Which of the following institutions is NOT directly overseen by the Reserve Bank of India?
(A) All-India development financial institutions like NABARD and SIDBI.
(B) Non-Banking Financial Companies such as Asset Finance Companies and Infrastructure Debt Funds.
(C) Commercial banks including Small Finance Banks and Payment Banks.
(D) Insurance Companies like LIC and GIC.

Ans :

(D) Insurance Companies like LIC and GIC.
The RBI's regulatory purview extends over a wide range of financial entities, including commercial banks, development financial institutions, and specific categories of NBFCs. However, insurance companies, both life and general, are regulated by a separate, dedicated authority, the Insurance Regulatory and Development Authority of India (IRDAI), not the RBI.

Oct/Nov 2020

31. The supervisory powers for Regional Rural Banks (RRBs), District Central Cooperative Banks, and State Co-operative Banks primarily vest with which institution, without undermining the powers of RBI under the Banking Regulation Act, 1949?
(A) National Bank for Agriculture and Rural Development (NABARD)
(B) Small Industries Development Bank of India (SIDBI)
(C) National Housing Bank (NHB)
(D) Securities and Exchange Board of India (SEBI)

Ans :

NODIA

(A) National Bank for Agriculture and Rural Development (NABARD)
While the RBI retains ultimate regulatory authority under the Banking Regulation Act, the direct supervisory powers for key rural credit institutions, namely RRBs and the rural cooperative credit structure (StCBs, DCCBs), are vested with NABARD. This arrangement leverages NABARD's specialized focus on rural and agricultural finance for effective day-to-day supervision of these entities.

May/June 2022

32. Which of the following is NOT a type of Non-Banking Financial Company (NBFC) regulated by the RBI?
(A) Asset Finance Companies
(B) Stock Broking Companies
(C) Micro Finance Institutions
(D) Core Investment Companies

Ans :

(B) Stock Broking Companies
The RBI regulates various types of NBFCs, including those involved in asset finance, loans, investments, and microfinance. However, entities primarily involved in the securities market, such as stock broking companies, are regulated by the capital market regulator, the Securities and Exchange Board of India (SEBI), and not by the Reserve Bank of India.

Oct/Nov 2023

33. The RBI has adopted a regime of Risk Based Supervision (RBS) for more effective supervision. What is the primary purpose of the on-site visit by the RBI's Senior Supervisory Manager (SSM) under this regime?
(A) To conduct a full-scope, independent audit of all transactions processed by the bank.
(B) To examine high-risk areas detected through off-site surveillance and validate bank-provided data.
(C) To approve the bank's annual financial

statements and its forward-looking business strategy.
(D) To train the bank's front-line staff on new regulatory guidelines and compliance procedures.

Ans :

(B) To examine high-risk areas detected through off-site surveillance and validate bank-provided data.
Under the Risk Based Supervision (RBS) framework, off-site surveillance is used to analyze data and identify potential high-risk areas in a bank's operations. The subsequent on-site visit by the Senior Supervisory Manager (SSM) is not a comprehensive audit but a targeted inspection focused on examining these identified high-risk areas and broadly validating the data submitted by the bank.

May/June 2016

34. Which department of the RBI is responsible for investing the country's foreign exchange reserves, which are built up by purchasing foreign currency from the market?
(A) Department of External Investments and Operations (DEIO)
(B) Foreign Exchange Department (FED)
(C) Financial Markets Department (FMD)
(D) Monetary Policy Department (MPD)

Ans :

(A) Department of External Investments and Operations (DEIO)
The management of foreign exchange involves different departments with specific roles. While the Foreign Exchange Department (FED) handles regulation and the Financial Markets Department (FMD) intervenes in the market, the specific task of investing the accumulated foreign currency assets and gold reserves is the responsibility of the Department of External Investments and Operations (DEIO).

Oct/Nov 2009

35. The investment of India's foreign assets by the Reserve Bank is guided by which three core principles?
(A) Profit, Risk, and Growth
(B) Diversification, Speculation, and Hedging
(C) Safety, Liquidity, and Return
(D) Domestic needs, Global trends, and Political stability

Ans :

(C) Safety, Liquidity, and Return
When investing the country's foreign exchange reserves, the RBI adheres to a strict hierarchy of objectives. The foremost principle is the safety and preservation of capital. The second is ensuring that the assets are liquid and can be easily accessed when needed. The third objective, only after the first two are met, is to earn a reasonable return.

May/June 2023

36. The Payment and Settlement Systems Act, 2007, gives the RBI oversight authority. Most secure payment systems in India operate on which security platform?
(A) National Payments Corporation of India (NPCI)
(B) Clearing Corporation of India Ltd. (CCIL)
(C) Society for Worldwide Interbank Financial Telecommunication (SWIFT)
(D) Indian Financial Network (INFINET)

Ans :

(D) Indian Financial Network (INFINET)
The Reserve Bank's network of secure payment systems, which handles various payment and settlement activities, largely operates on the security platform of the Indian Financial Network (INFINET). This is a closed user group network for the banking and financial sector, which uses technologies like digital signatures to ensure the security and integrity of transactions.

May/June 2007

37. Match the payment system (List-I) with its correct description (List-II).
List-I
P. RTGS
Q. NACH
R. NUUP
S. CTS
List-II
1. Facilitates interbank account transfer of funds using USSD technology.
2. An online system for clearing cheques electronically.
3. Facilitates bulk payments like salaries and dividends.
4. A large-value system for fund transfers settled on a gross basis.
(A) P-4, Q-3, R-1, S-2

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Oct/Nov 2021

21. What is the primary purpose of the Market Stabilisation Scheme (MSS) introduced in 2004?
(A) To provide a borrowing facility for state governments.
(B) To fund the government's normal borrowing programme.
(C) To absorb excess liquidity from the system by issuing securities.
(D) To inject liquidity into the system during periods of stress.

Ans :

(C) To absorb excess liquidity from the system by issuing securities.
The Market Stabilisation Scheme (MSS) was introduced specifically to manage large and enduring surpluses of liquidity. Under this scheme, the RBI issues treasury bills and dated securities on behalf of the government, over and above its normal borrowing needs. The proceeds are held in a separate cash balance and are not used for government expenditure.

May/June 2024

22. Consider the following statements regarding Ways and Means Advances (WMA) for State Governments:
Statement 1: The rate of interest on WMA is linked to the Repo Rate.
Statement 2: The normal WMA limits are based on a three-year average of the state's revenue and capital expenditure.
(A) Both Statement 1 and Statement 2 are correct.
(B) Both Statement 1 and Statement 2 are incorrect.
(C) Statement 1 is correct, but Statement 2 is incorrect.
(D) Statement 1 is incorrect, but Statement 2 is correct.

Ans :

(A) Both Statement 1 and Statement 2 are correct.
Both statements accurately describe the Ways and Means Advances (WMA) scheme. The interest rate charged on WMA is linked to the prevailing policy Repo Rate. Furthermore, the limits for normal WMA are determined based on a three-year average of the state's actual revenue and capital expenditure, excluding volatile items, to reflect its fiscal size.

Oct/Nov 2008

23. A State Government's account with the RBI can be in overdraft for a maximum of how many consecutive working days?
(A) 7 consecutive working days
(B) 10 consecutive working days
(C) 30 consecutive working days
(D) 14 consecutive working days

Ans :

(D) 14 consecutive working days
To enforce fiscal discipline, the RBI places a limit on the duration a state government can remain in overdraft. The rules specify that a state government's account is permitted to be in overdraft for a maximum period of 14 consecutive working days. There is also an overall limit of 36 days in a quarter for being in overdraft.

May/June 2006

24. What was the primary objective of introducing Long-Term Repo Operations (LTRO) and Targeted Long-Term Repo Operations (TLTRO) in March 2020?
(A) To augment medium to long-term credit flows to productive sectors.
(B) To absorb surplus liquidity from the banking system.
(C) To exclusively finance the government's borrowing program.
(D) To stabilize the foreign exchange market during periods of volatility.

Ans :

(A) To augment medium to long-term credit flows to productive sectors.
LTRO and TLTRO were introduced to ensure the availability of durable liquidity at a reasonable cost, thereby encouraging banks to undertake maturity transformation. The goal was to facilitate the transmission of monetary policy and augment credit flows for one-year and three-year tenors to productive sectors of the economy, with TLTRO specifically targeting investment in corporate debt.

Oct/Nov 2017

25. The Reserve Bank of India has the authority to issue bank notes up to what maximum denomination?
(A) ₹1,000
(B) ₹2,000
(C) ₹10,000

NODIA

functions of UCBs. Simultaneously, aspects like registration, management, and elections are controlled by the respective state governments under their cooperative societies acts, creating this dual-control mechanism.

Oct/Nov 2006

42. Refer to the 'Revised Regulatory Framework for Urban Co-operative Banks (UCBs)' section.
"For Tier 2, Tier 3 and Tier 4 UCBs, minimum CRAR has been revised to 12%. UCBs that do not meet the revised CRAR will have to achieve a CRAR of 10% by the financial year ended March 31, 2024, 11% by March 31, 2025; and 12% by March 31, 2026."
According to the revised framework, what is the CRAR target for a Tier 3 UCB by the end of the financial year on March 31, 2025?
(A) 11%
(B) 9%
(C) 10%
(D) 12%

Ans :

(A) 11%
The source provides a clear glide path for Tier 2, 3, and 4 UCBs to meet the new minimum Capital to Risk-weighted Assets Ratio (CRAR) of 12%. The intermediate milestone specified for the financial year ending March 31, 2025, is a CRAR of 11%. This phased approach is designed to facilitate a smooth transition to the higher capital requirement.

May/June 2021

43. The Securities and Exchange Board of India (SEBI) was conferred statutory powers through the SEBI Act of which year?
(A) 1988
(B) 1991
(C) 1995
(D) 1992

Ans :

(D) 1992
Following the economic reforms of 1991, a need was felt for a powerful, autonomous, and statutory body to regulate the capital market. To fulfill this, the Securities and Exchange Board of India (SEBI) was established and granted statutory powers with the enactment of the SEBI Act by the Parliament in 1992, making it an independent regulator.

Oct/Nov 2018

44. Prior to the formation of SEBI with statutory powers, some of its control functions were carried out by which two bodies?
(A) Reserve Bank of India and Ministry of Finance
(B) Controller of Capital Issues and Company Law Board
(C) Planning Commission and Department of Company Affairs
(D) Stock Holding Corporation of India and Unit Trust of India

Ans :

(B) Controller of Capital Issues and Company Law Board
Before SEBI became the sole, powerful regulator for the capital market, the supervisory framework was fragmented. The key control functions, such as overseeing capital issues and corporate governance matters related to securities, were performed by the Controller of Capital Issues (CCI) and the Company Law Board (CLB). SEBI's formation consolidated these roles under one authority.

May/June 2005

45. What is the organisational structure of the SEBI Board?
(A) A chairman, 4 full-time members, and 3 part-time members.
(B) A chairman, 5 full-time members, and 2 part-time members.
(C) A chairman, 3 full-time members, and 4 part-time members.
(D) A chairman, 2 full-time members, and 5 part-time members.

Ans :

(C) A chairman, 3 full-time members, and 4 part-time members.
The SEBI board is headed by a chairman. The chairman is supported by a team of three full-time members and four part-time members. The part-time members are typically officials deputed from the Government of India and the Reserve Bank of India, ensuring coordination between the key economic arms of the country.

Oct/Nov 2022

46. Which of the following is NOT an intermediary in the primary market that SEBI registers and regulates?

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(A) Merchant Bankers
(B) Underwriters
(C) Bankers to an Issue
(D) Stock Brokers

Ans :

(D) Stock Brokers
SEBI regulates intermediaries in both primary and secondary markets. Merchant bankers, underwriters, and bankers to an issue are key intermediaries involved in the process of raising new capital, which is the primary market. Stock brokers, on the other hand, are primarily intermediaries in the secondary market, facilitating the trading of already issued securities.

May/June 2018

47. Which of the following functions falls under the purview of SEBI?
I. Prohibiting insider trading in securities.
II. Regulating the business in stock exchanges.
III. Registering and regulating venture capital funds and mutual funds.
IV. Promoting investors' education and training of intermediaries.
(A) I and II only
(B) I, II and III only
(C) II, III and IV only
(D) I, II, III and IV

Ans :

(D) I, II, III and IV
All the listed functions are central to SEBI's mandate. Its duties include regulating stock exchanges, prohibiting fraudulent practices like insider trading, registering and regulating collective investment schemes like mutual funds and venture capital funds, and promoting investor education. These actions collectively aim to protect investors, develop the market, and ensure its integrity.

Oct/Nov 2016

48. Under the Code of Civil Procedure, 1908, SEBI is vested with the powers of a civil court. Which of the following powers is NOT included in this?
(A) Summoning and enforcing the attendance of persons and examining them on oath.
(B) Sentencing an individual to criminal imprisonment.
(C) Issuing commissions for the examination of witnesses or documents.
(D) Discovery and production of books of account and other documents.

Ans :

(B) Sentencing an individual to criminal imprisonment.
While SEBI has significant powers akin to a civil court for the purpose of investigation—such as summoning individuals, compelling the production of documents, and examining witnesses—it does not have the power to impose criminal sentences like imprisonment. For such actions, it must go through the judicial process, although it can impose monetary penalties and market-related sanctions.

May/June 2014

49. A listed company's stock price inexplicably surges just before the announcement of a major acquisition. SEBI suspects that certain individuals with prior knowledge of the deal traded on this information. Based on its powers, what is the most appropriate first step SEBI can take?
(A) Immediately delist the company's stock from the exchange.
(B) Initiate an investigation into the trading activity and the individuals involved.
(C) Order the arrest of the company's CEO and board members.
(D) Announce a new set of regulations for all listed companies.

Ans :

(B) Initiate an investigation into the trading activity and the individuals involved.
SEBI's power to investigate is triggered when it has reasonable grounds to believe that transactions are detrimental to investors or that rules have been violated, such as in cases of suspected insider trading. The logical and procedural first step is to order an investigation to gather evidence about the affairs of the intermediary or persons involved.

Oct/Nov 2007

50. If, after an inquiry, SEBI finds that a person has violated the provisions of the SEBI Act, it may pass a 'Cease and Desist' order. What is the purpose of this order?
(A) To require the person to stop committing or causing the violation.
(B) To impose a monetary penalty on the violator.
(C) To suspend the person's trading account for a

NODIA

lifetime.
(D) To compensate the investors who suffered losses.

Ans :

(A) To require the person to stop committing or causing the violation.
A 'Cease and Desist' order is a directive issued by a regulatory authority to an individual or entity. Its specific purpose is to command the recipient to immediately stop ('cease') and not restart ('desist') an activity that has been found to be in violation of the law or regulations, thereby preventing further harm or non-compliance.

May/June 2025

51. The Insurance Regulatory and Development Authority of India (IRDAI) was constituted as an autonomous body in April 2000, based on the recommendations of which committee?
(A) Narasimham Committee
(B) Tandon Committee
(C) R. N. Malhotra Committee
(D) Ghosh Committee

Ans :

(C) R. N. Malhotra Committee
The establishment of an independent regulatory and development authority for the insurance sector was a key recommendation of the committee formed by the government in 1993. This committee, headed by the former RBI Governor R. N. Malhotra, laid the roadmap for insurance sector reforms, leading directly to the formation of IRDAI.

Oct/Nov 2019

52. The objectives of IRDAI are twofold. What are they?
(A) Maximizing government revenue and managing foreign investment in insurance.
(B) Conducting audits of public sector banks and regulating pension funds.
(C) Setting premium rates for all insurance products and selling insurance policies.
(D) Policyholder protection and healthy growth of the insurance market.

Ans :

(D) Policyholder protection and healthy growth of the insurance market.
The name IRDAI itself reflects its dual mandate: 'Regulation' and 'Development'. Its primary objectives are to protect the interests of policyholders and to simultaneously regulate, promote, and ensure the orderly and healthy growth of the entire insurance industry in India, fostering a competitive and efficient market for the benefit of the economy.

May/June 2009

53. The following are some of the recommendations made by the Malhotra Committee in 1994:
1. Government stake in the insurance Companies to be brought down to 50%.
2. Private Insurance Companies with a minimum paid up capital of ₹100 crores should be allowed to enter the industry.
3. Mandatory Investments of LIC Life Funds in government securities to be reduced from 75% to 50%.
4. No company should deal in both Life and General Insurance through a single entity.

Which recommendation specifically aimed to increase competition in the insurance sector?
(A) Recommendation 1
(B) Recommendation 3
(C) Recommendation 2
(D) Recommendation 4

Ans :

(C) Recommendation 2
While all recommendations were part of the reform package, the proposal to allow private companies with a substantial paid-up capital of ₹100 crores to enter the industry was the most direct measure aimed at ending the state monopoly and introducing competition. This was intended to improve efficiency, expand product variety, and enhance customer service.

Oct/Nov 2011

54. Which of the following recommendations was NOT made by the Malhotra Committee?
(A) An Insurance Regulatory Body should be set up.
(B) All insurance companies must be merged into a single national entity.
(C) Foreign companies may be allowed to enter the industry in collaboration with domestic companies.
(D) LIC should pay interest on delays in payments beyond 30 days.

Ans :

NODIA

May/June 2024

63. What is the primary function of a Pension Fund Manager (PFM) within the NPS architecture?
(A) To invest and manage the funds of subscribers as per PFRDA guidelines.
(B) To enroll new subscribers and perform KYC verification.
(C) To maintain records and issue PRAN to subscribers.
(D) To receive and consolidate funds from across the country for NPS.

Ans :

(A) To invest and manage the funds of subscribers as per PFRDA guidelines.
Pension Fund Managers (PFMs) are the entities mandated with the core investment function within the National Pension System. Their primary responsibility is to professionally invest and manage the contributions of subscribers according to the investment guidelines and rules laid down by PFRDA, with the objective of generating returns to build a retirement corpus for the subscriber.

Oct/Nov 2008

64. Read the description of the Point of Presence (PoP) Agencies and answer the question below.
"The third and the most public-facing entities of the PFRDA are the Point of Presence Agencies. Following are the functions that they perform: To receive and analyse the duly filled application form along with KYC documentation... To collect and verify NPS contributions made by subscribers... To upload contribution files of subscribers on to the Central Record-Keeping Agency system."
Based on the description, what is the principal role of a PoP Agency in the NPS ecosystem?
(A) It acts as the primary investment manager responsible for generating returns on subscriber funds.
(B) It is the main interface for subscriber enrolment, contribution collection, and transaction initiation.
(C) It holds all the underlying securities and financial assets of the subscribers in safe custody.
(D) It is responsible for the final daily settlement and national reconciliation of all NPS funds.

Ans :

(B) It is the main interface for subscriber enrolment, contribution collection, and transaction initiation.
The source describes PoPs as the "most public-facing entities." Their functions, such as receiving application forms, handling KYC, collecting contributions, and uploading files to the CRA, clearly establish them as the primary service points and operational interface for customers interacting with the National Pension System. They are the first point of contact for subscribers.

May/June 2006

65. Ms. Priya, a 30-year-old professional, decides to open a National Pension System (NPS) account for her retirement savings. Which PFRDA intermediary would she typically approach to submit her application form, complete her KYC, and make her first contribution?
(A) A Pension Fund Manager (PFM)
(B) A Point of Presence (PoP) Agency
(C) The Central Record Keeping Agency (CRA)
(D) The Trustee Bank

Ans :

(B) A Point of Presence (PoP) Agency
Point of Presence (PoP) Agencies are the designated, public-facing entities responsible for subscriber interface functions in the NPS. For a new subscriber like Ms. Priya, the PoP is the correct intermediary to approach for all initial activities, including submitting the registration form, undergoing the KYC process, and depositing her initial contribution into the system.

Oct/Nov 2017

66. Within the PFRDA framework, which entity is responsible for receiving funds for NPS from all over the country and transferring them for settlement according to the instructions of the CRA?
(A) Trustee Bank
(B) Custodian
(C) Pension Fund Manager
(D) Point of Presence

Ans :

(A) Trustee Bank
The Trustee Bank plays a crucial role in the fund flow mechanism of the NPS. Its specific responsibilities include receiving all NPS contributions from various collection points,

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May/June 2020

59. An insurance company wants to launch a new, affordable "combo-micro-insurance" product targeted at Self Help Groups (SHGs) in rural areas. Under IRDAI's regulations, what is a key provision that facilitates this initiative?

(A) The company must first get specific approval from the Reserve Bank of India for rural products.
(B) Such products are strictly prohibited to prevent the potential mis-selling to low-income groups.
(C) The company must deposit 100% of the premium collected from such products directly with IRDAI.
(D) Regulations have allowed entities like SHGs and NGOs to act as agents for marketing such products.

Ans :

(D) Regulations have allowed entities like SHGs and NGOs to act as agents for marketing such products.
IRDAI has specifically issued micro-insurance regulations to promote financial inclusion. To enhance the reach of these affordable products, the regulations permit entities like Non-Governmental Organisations (NGOs) and Self Help Groups (SHGs) to act as agents for insurance companies. This helps in effectively marketing and distributing micro-insurance products to low-income populations in rural and urban areas.

Oct/Nov 2015

60. The Pension Fund Regulatory and Development Authority (PFRDA) was established in 2003. Its flagship scheme, the National Pension System (NPS), was initially launched for government employees and was later extended to all citizens in which year?

(A) 2003
(B) 2009
(C) 2005
(D) 2007

Ans :

(B) 2009
The National Pension System (NPS) was originally introduced in 2003, concurrent with the establishment of PFRDA, but its scope was limited to new entrants to government service. A major expansion of the scheme occurred in 2009 when the NPS was opened up to all citizens of India on a voluntary basis, significantly broadening its reach.

May/June 2013

61. What is the stated aim of PFRDA as per its preamble?

(A) To guarantee a fixed, inflation-adjusted pension amount to every citizen of India.
(B) To actively manage the government's entire portfolio of domestic and international investments.
(C) To promote old age income security by developing and regulating pension funds.
(D) To regulate both the life insurance and general health insurance industries in India.

Ans :

(C) To promote old age income security by developing and regulating pension funds.
The preamble of the PFRDA Act clearly outlines its core mission. The authority's primary aim is "to promote old age income security by establishing, developing and regulating pension funds, to protect the interests of subscribers to schemes of pension funds and for matters connected therewith or incidental thereto," focusing squarely on the pension sector.

Oct/Nov 2021

62. Which intermediary under the PFRDA is responsible for administration, record-keeping of all customer information, and issuing the Permanent Retirement Account Number (PRAN)?

(A) Pension Fund Manager (PFM)
(B) Point of Presence (PoP) Agency
(C) Trustee Bank
(D) Central Record Keeping Agency (CRA)

Ans :

(D) Central Record Keeping Agency (CRA)
The Central Record Keeping Agency (CRA) serves as the central infrastructure for the National Pension System. Its key functions include the comprehensive administration and maintenance of records for all subscribers. A crucial part of this role is the issuance of a unique Permanent Retirement Account Number (PRAN) to each customer who enrolls in the NPS.

NODIA

(B) Longer Maturity
The scenario describes a project with a long construction period and an even longer operational life. This directly corresponds to the 'Longer Maturity' characteristic of infrastructure finance. Financing for such projects must have extended tenors, often between 5 to 40 years, to match the long-term nature of the asset and its revenue generation profile, ensuring financial viability.

Oct/Nov 2006

13. What is the typical range of maturities for infrastructure finance?
(A) 1 to 3 years
(B) 3 to 5 years
(C) 5 to 40 years
(D) Over 50 years

Ans :

(C) 5 to 40 years
Infrastructure finance is distinct due to its long-term nature, which reflects both the extended construction periods and the long operational life of the assets created. Consequently, the financing for these projects tends to have very long maturities, typically falling within the range of 5 to 40 years, to align repayment obligations with project cash flows.

May/June 2019

14. Which of the following factors contributes to the 'Higher Risk' characteristic of infrastructure financing?
(A) Guaranteed demand and stable government policies.
(B) Short investment periods and small project sizes.
(C) High, predictable returns and minimal environmental impact.
(D) Technological obsolescence and political uncertainties.

Ans :

(D) Technological obsolescence and political uncertainties.
The high-risk nature of infrastructure projects stems from multiple factors. These include uncertainty about future demand, potential environmental issues, the risk of technology becoming outdated (especially in sectors like telecommunications), and, very importantly, risks associated with changes in political and regulatory policies over the long life of the project, which can impact its profitability.

Oct/Nov 2018

15. The returns on infrastructure investments are often measured in 'real terms' because:
(A) project revenue streams, such as tariffs and tolls, are often indexed to inflation.
(B) project returns are exclusively tangible in nature and lack any monetary component.
(C) international financial reporting standards universally mandate the use of real terms for projects.
(D) these investments are exclusively made in physical real estate and tangible assets.

Ans :

(A) project revenue streams, such as tariffs and tolls, are often indexed to inflation.
Real returns are returns adjusted for inflation. In infrastructure, this metric is crucial because the project's revenues (like tolls or electricity tariffs) are frequently indexed to the underlying rate of inflation. Measuring returns in real terms provides a more accurate picture of the project's profitability by stripping out the effects of inflation on both revenues and costs.

May/June 2016

16. What is the primary role of a Development Finance Institution (DFI)?
(A) To provide short-term working capital loans for the daily operations of commercial businesses.
(B) To finance nationally important projects that are unattractive to commercial lenders.
(C) To accept retail deposits from the general public and offer standard savings account services.
(D) To act as the primary regulator for the nation's stock market and commodity exchanges.

Ans :

(B) To finance nationally important projects that are unattractive to commercial lenders.
A DFI, also known as a development bank, is a specialized agency created to provide long-term credit for capital-intensive investments. It focuses on projects that are crucial for national development but may have low rates of return or high risks, making them unattractive to commercial lenders who operate on stricter commercial return criteria.

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consolidating these funds, and then transferring them to different entities (like Pension Fund Managers) for investment, based on the settlement instructions provided by the Central Record Keeping Agency (CRA).

May/June 2008

67. An NPS subscriber notices an error in their name as recorded in their account details. To which intermediary should the subscriber submit a request to carry out this change in their KYC information?

(A) The Reserve Bank of India
(B) The Pension Fund Manager managing their funds
(C) The Central Record Keeping Agency
(D) The Custodian

Ans :

(C) The Central Record Keeping Agency
The Central Record Keeping Agency (CRA) is responsible for maintaining the records of all subscribers. While change requests are typically submitted through a Point of Presence (PoP), the CRA is the backend intermediary that actually carries out and updates the subscriber's KYC and other account information.

Oct/Nov 2013

68. Match the financial regulator (List-I) with the primary market it regulates (List-II).

List-I
P. RBI
Q. SEBI
R. IRDAI
S. PFRDA

List-II
1. Capital Market
2. Insurance Sector
3. Pension Sector
4. Banking System and Money Market

(A) P-1, Q-4, R-2, S-3
(B) P-4, Q-1, R-3, S-2
(C) P-4, Q-1, R-2, S-3
(D) P-2, Q-3, R-1, S-4

Ans :

(C) P-4, Q-1, R-2, S-3
The Reserve Bank of India (RBI) is the primary regulator for the banking system and money market. The Securities and Exchange Board of India (SEBI) regulates the capital market. The Insurance Regulatory and Development Authority of India (IRDAI) governs the insurance sector. The Pension Fund Regulatory and Development Authority (PFRDA) oversees the pension sector.

May/June 2015

69. Identify the incorrect statement regarding the regulators of the Indian financial system.

(A) SEBI functions under the jurisdiction of the Ministry of Finance.
(B) PFRDA was established with a view to promoting, regulating, and developing the pension sector.
(C) IRDAI's objectives are solely focused on the development of the insurance market, not on regulation.
(D) RBI was established based on the recommendations of the Hilton-Young Commission.

Ans :

(C) IRDAI's objectives are solely focused on the development of the insurance market, not on regulation.
This statement is incorrect because IRDAI has a dual objective. Its name explicitly includes "Regulatory" and "Development." Its mandate is to protect policyholders and ensure the orderly growth of the insurance industry. The word 'Development' was specifically included in its name to highlight its promotional role in addition to its primary regulatory function.

Oct/Nov 2012

70. Consider the following statements about India's financial regulators:

I. RBI is the regulator for banks and has multifarious functions for directing the economy.
II. SEBI is the regulator for players in the capital market.
III. IRDAI and PFRDA regulate the insurance and pension sectors, respectively.

Which of the above statements is/are correct?

(A) I only
(B) I and II only
(C) II and III only
(D) I, II, and III

Ans :

(D) I, II, and III
All three statements accurately summarize the roles of the key financial regulators in India.

NODIA

(B) All insurance companies must be merged into a single national entity.
The Malhotra Committee's recommendations were aimed at liberalizing and improving the efficiency of the insurance sector. It suggested opening the sector to private and foreign players and making existing public entities more competitive and accountable. The idea of merging all companies into one entity is contrary to its core theme of promoting competition and choice.

May/June 2010

55. What is the composition of the board that heads the IRDAI?
(A) A Chairman, 3 whole-time Members, and 3 part-time Members.
(B) A Chairman, 4 whole-time Members, and 5 part-time Members.
(C) A Chairman, 2 whole-time Members, and 7 part-time Members.
(D) A Chairman, 5 whole-time Members, and 4 part-time Members.

Ans :

(D) A Chairman, 5 whole-time Members, and 4 part-time Members.
According to Section 4 of the IRDA Act, 1999, the authority is headed by a full-time Chairman. The Chairman is supported by a Board that consists of five whole-time Members and four part-time Members. All members of the IRDAI board, including the Chairman, are appointed by the Government of India.

Oct/Nov 2024

56. Which of the following is a key power and function of IRDAI?
(A) Protecting the interests of policyholders in matters like claim settlement and policy terms.
(B) Regulating the interest rates on all bank savings and fixed deposit accounts.
(C) Issuing new currency notes and managing the nation's overall money supply.
(D) Supervising the daily functioning of stock exchanges and all mutual funds.

Ans :

(A) Protecting the interests of policyholders in matters like claim settlement and policy terms.
A primary duty of IRDAI is to safeguard the interests of those who buy insurance policies. This includes overseeing matters directly affecting policyholders, such as the assignment of policies, nominations, ensuring fair settlement of claims, defining surrender values, and monitoring the overall terms and conditions of insurance contracts to prevent unfair practices by insurers.

May/June 2017

57. Which of the following entities is NOT regulated by IRDAI?
(A) Life Insurance Companies
(B) General Insurance Companies
(C) Pension Fund Managers
(D) Third-Party Administrators (TPAs)

Ans :

(C) Pension Fund Managers
IRDAI's regulatory domain covers the entire insurance ecosystem, including life, general, and reinsurance companies, as well as various intermediaries like corporate agents, brokers, surveyors, and TPAs. However, Pension Fund Managers (PFMs) operate in the pension sector and are regulated by a different authority, the Pension Fund Regulatory and Development Authority (PFRDA).

Oct/Nov 2005

58. What is the primary objective of IRDAI's off-site surveillance of insurance companies?
(A) To monitor the financial health of insurers and identify early signs of financial deterioration.
(B) To conduct unannounced, surprise physical checks on various insurance company branch offices.
(C) To directly intervene and resolve individual customer complaints in real-time.
(D) To set the mandatory annual business and premium collection targets for each insurance company.

Ans :

(A) To monitor the financial health of insurers and identify early signs of financial deterioration.
Off-site surveillance is a proactive supervisory tool. Its main purpose is to continuously monitor the financial condition of insurance companies by analyzing periodic statements, returns, and compliance certificates submitted by them. This helps in identifying companies that show financial weakness, which could become a

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CHAPTER 28

Reforms & Developments in The Banking Sector

Oct/Nov 2016

1. Which of the following is identified as a distinctive feature of infrastructure investment?

(A) It requires minimal financial investment and provides immediate, directly attributable benefits.

(B) It necessitates heavy financial investment and is characterized by a long gestation period.

(C) It involves a very short gestation period and contributes to national output almost instantly.

(D) It primarily benefits urban centers with negligible or no significant impact on the rural economy.

Ans :

(B) It necessitates heavy financial investment and is characterized by a long gestation period.

Infrastructure development is characterized by the need for substantial capital outlay. Furthermore, the time lag between the initial investment and the point at which the project starts generating output, known as the gestation period, is typically quite long. This is a fundamental feature that distinguishes it from many other types of investments in the economy.

May/June 2021

2. The concept of "externalities" in the context of infrastructure facilities implies that they:

(A) generate spillover benefits or costs for parties not directly involved in their use.

(B) are exclusively constructed and subsequently managed by external or foreign-owned companies.

(C) require external funding sources, such as Foreign Direct Investment, for project completion.

(D) have their user prices and service tariffs determined solely by external global market forces.

NODIA

Ans :

(A) generate spillover benefits or costs for parties not directly involved in their use.

Externalities are a key feature of infrastructure. They create spillover effects, which can be positive or negative, for individuals or businesses who are not direct participants in the infrastructure's use or provision. For instance, a new highway benefits not just the toll-paying users but also nearby businesses and property owners through increased accessibility and economic activity.

Oct/Nov 2010

3. What is the primary reason that competitive market systems with purely private enterprises may fail to provide an adequate level of infrastructural services?

(A) Private firms lack the technical expertise to build complex infrastructure projects.

(B) Government regulations completely prohibit private sector participation in all infrastructure sectors.

(C) Infrastructure projects often exhibit features of natural monopoly and create externalities.

(D) The demand for infrastructure services is too low to be profitable for private companies.

Ans :

(C) Infrastructure projects often exhibit features of natural monopoly and create externalities.

The inherent characteristics of infrastructure, such as significant economies of scale leading to natural monopolies and the presence of externalities, mean that a purely competitive market may not achieve socially optimal outcomes. This often necessitates government intervention, either through direct provision or by regulating private providers to prevent consumer exploitation and ensure adequate service levels.

The RBI governs the banking sector and steers the broader economy. SEBI is the designated watchdog for the capital market, overseeing entities like stock exchanges and mutual funds. IRDAI and PFRDA have specific mandates for the insurance and pension sectors, respectively.

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May/June 2023

8. Based on the data provided for 2021, what was the reported Gross Domestic Savings as a percentage of GDP in India?
(A) 29.32%
(B) 22.3%
(C) 7.2%
(D) 1.3%

Ans :

(A) 29.32%
According to the World Bank collection of development indicators cited, India's Gross Domestic Savings as a percentage of GDP was reported at 29.32% in the year 2021. This aggregate figure includes savings from the household sector, the corporate sector, and the public sector, reflecting the total savings available within the economy for investment purposes.

Oct/Nov 2014

9. Identify the correct statement regarding the composition of India's savings rate as a portion of GDP.
(A) The public sector is the largest contributor to savings at 22.3%.
(B) The corporate sector contributes more to savings than the household sector.
(C) The household sector is the dominant contributor to savings at 22.3%.
(D) The public and corporate sectors combined contribute more than the household sector.

Ans :

(C) The household sector is the dominant contributor to savings at 22.3%.
The breakdown of India's savings rate shows that the household sector is the primary source of savings, contributing 22.3% as a portion of GDP. The corporate sector contributes a smaller share at 7.2%, and the public sector contributes the least at 1.3%. This highlights the critical role of household savings in funding the nation's investment needs.

May/June 2007

10. What is identified as the major challenge in infrastructure investment in India, despite a reasonably high savings rate?
(A) The problem of channelizing available savings into infrastructure projects.
(B) The complete lack of savings in the economy.
(C) The refusal of the government to invest in any infrastructure.
(D) An excessively high contribution from the public sector, crowding out private investment.

Ans :

(A) The problem of channelizing available savings into infrastructure projects.
India possesses a reasonably high savings rate, with a significant portion held as bank deposits by households. Therefore, the primary issue is not the absolute availability of funds but rather the effective intermediation and direction of these savings into long-term, high-risk infrastructure projects. This channeling problem is a key bottleneck for infrastructure development in the country.

Oct/Nov 2025

11. Which of the following is NOT listed as a channel through which funds reach the infrastructure sector in India?
(A) Development Financial Institutions
(B) Commercial Banks
(C) Foreign Direct Investment (FDI) from abroad
(D) Informal and unorganized money lenders

Ans :

(D) Informal and unorganized money lenders
The financing of large-scale infrastructure projects is facilitated through formal, organized channels. These include the government, specialized Development Financial Institutions (DFIs), commercial banks, NBFCs, insurance and pension funds, and foreign capital inflows like ECBs and FDI. Informal money lenders operate outside this structured framework and are not a channel for funding major infrastructure developments.

May/June 2012

12. An infrastructure company is planning to build a large hydro-electric power project that is expected to take 5 years to construct and have a useful life of 100 years. Which characteristic of infrastructure financing is most prominently displayed in this scenario?
(A) Higher Risk
(B) Longer Maturity
(C) Fixed and Low Real Returns
(D) Larger Amounts

Ans :

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May/June 2014

4. In India, private companies providing telecommunication services are regulated by which authority?

(A) Ministry of Communications
(B) Department of Telecommunications
(C) NITI Aayog
(D) Telecom Regulatory Authority of India (TRAI)

Ans :

(D) Telecom Regulatory Authority of India (TRAI)
While various private companies provide mobile and other telecommunication services, they operate within a regulated framework. The Telecom Regulatory Authority of India (TRAI) is the designated government-appointed body responsible for regulating telecom services, including setting tariffs and ensuring quality of service, to protect consumer interests and ensure fair competition in the sector.

Oct/Nov 2008

5. How does the development of good quality infrastructure contribute to "inclusive growth"?

(A) By exclusively targeting large-scale industrial development to maximize Gross Domestic Product.
(B) By deliberately increasing income inequality as a primary tool to incentivize higher productivity.
(C) By distributing the benefits of economic growth across a broad segment of the population.
(D) By restricting access to benefits only to affluent users who can afford to pay for premium services.

Ans :

(C) By distributing the benefits of economic growth across a broad segment of the population.
Inclusive growth means that the advantages of economic expansion are widely distributed, leading to poverty alleviation and reduced income inequality. Good infrastructure, such as rural roads and reliable power, empowers small enterprises and farmers, enhances their productivity, creates employment, and connects them to larger markets, thereby ensuring they share in the country's overall progress.

May/June 2005

6. Which of the following is a key reason why quality infrastructure is crucial for Micro, Small and Medium Enterprises (MSMEs)?

(A) MSMEs can easily build their own power plants and transport networks.
(B) MSMEs rely heavily on general public infrastructure to compete with large enterprises.
(C) Infrastructure development primarily benefits large corporations, leaving MSMEs unaffected.
(D) MSMEs are mandated by law to contribute a portion of their profits to infrastructure funds.

Ans :

(B) MSMEs rely heavily on general public infrastructure to compete with large enterprises.
Unlike large-scale enterprises that might have the resources to build their own captive infrastructure like power generators, MSMEs are widely dispersed and depend on the availability of general public facilities. Access to reliable roads, electricity, and ports allows them to operate efficiently, reduce costs, and compete successfully with larger players in the economy.

Oct/Nov 2022

7. According to the government classification, which of the following is NOT considered a component of infrastructure?

(A) Railway tracks, signalling system and stations
(B) Non-conventional energy generation and distribution
(C) Canal networks for irrigation
(D) Retail trade and e-commerce platforms

Ans :

(D) Retail trade and e-commerce platforms
The government's classification of infrastructure includes a wide range of physical assets and networks essential for the economy's functioning. This list comprises sectors like electricity, gas, water supply, railways, roads, ports, and telecommunications. Retail trade and e-commerce platforms, while important for the economy, are generally classified as commercial services rather than core physical infrastructure.

NODIA

Oct/Nov 2009

17. How do DFIs typically differ from commercial banks in their funding and lending operations?
(A) DFIs primarily mobilise short-term public deposits and lend for very short maturities.
(B) DFIs source long-term funds for long-term lending, unlike banks which face maturity mismatch risk.
(C) Commercial banks can safely lend short-term deposits for long-term projects without any risk.
(D) DFIs typically mobilise long-term funds but lend for short maturities, creating a funding mismatch.

Ans :

(B) DFIs source long-term funds for long-term lending, unlike banks which face maturity mismatch risk.
DFIs are structured to handle long-term lending. They source funds from the market, government, or multilateral institutions for long tenors. In contrast, commercial banks primarily mobilise short- to medium-term deposits. Lending these short-term funds for long-gestation infrastructure projects creates a significant maturity mismatch, which poses a potential liquidity and solvency risk for the bank.

May/June 2018

18. Arrange the following DFIs in the chronological order of their establishment:
I. Industrial Development Bank of India (IDBI)
II. Industrial Finance Corporation of India (IFCI)
III. Export-Import Bank of India (EXIM Bank)
IV. Small Industries Development Bank of India (SIDBI)
(A) II, I, III, IV
(B) I, II, III, IV
(C) II, III, I, IV
(D) IV, III, I, II

Ans :

(A) II, I, III, IV
The institutional framework for development banking in India evolved over several decades. The first DFI was the Industrial Finance Corporation of India (IFCI) in 1948. This was followed by the Industrial Development Bank of India (IDBI) in 1964, the Export-Import Bank of India (EXIM Bank) in 1982, and the Small Industries Development Bank of India (SIDBI) in 1990.

Oct/Nov 2011

19. Which of the following is an example of a sector-specific DFI?
(A) Industrial Investment Bank of India (IIBI)
(B) Industrial Development Bank of India (IDBI)
(C) Rural Electrification Corporation Ltd (REC)
(D) Industrial Finance Corporation of India (IFCI)

Ans :

(C) Rural Electrification Corporation Ltd (REC)
While some DFIs had a broad industrial focus, others were established to cater to specific sectors of the economy. The Rural Electrification Corporation Ltd (REC) is a prime example of a sector-specific DFI, with its mandate focused on financing projects within the power sector. Similarly, NABARD focuses on agriculture and IRFC on rail infrastructure.

May/June 2010

20. What was a primary reason for the transformation of earlier DFIs like ICICI and IDBI into universal banks?
(A) A new government mandate explicitly required all existing DFIs to become universal banks.
(B) They were fundamentally unable to compete with commercial banks in the short-term lending market.
(C) The country's infrastructure financing needs had been fully met, making DFIs redundant.
(D) They lacked access to low-cost retail deposits needed to fund long-term projects.

Ans :

(D) They lacked access to low-cost retail deposits needed to fund long-term projects.
The earlier generation of DFIs faced a significant financing challenge. Commercial banks had exclusive access to low-cost retail deposits from the public. Without this stable and cheap source of funds, and with limited government guarantees, DFIs found it difficult to sustain their model of long-term lending, prompting many to convert into universal banks to gain deposit access.

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May/June 2025

40. What was the primary motivation for launching the Ease of Access and Service Excellence (EASE) reform agenda?
(A) To reform PSBs following a large government-led recapitalization effort.
(B) To prepare all Public Sector Banks for their eventual and complete privatization.
(C) To mandate a significant increase in the branch network of Regional Rural Banks.
(D) To systematically reduce the regulatory focus on mandatory priority sector lending targets.

Ans :

(A) To reform PSBs following a large government-led recapitalization effort.
Following a significant recapitalization of Rs 2.1 lakh crores approved in 2017, the government initiated the EASE agenda to ensure a return on its investment. The goal was to reform and streamline the operations of Public Sector Banks (PSBs) to improve their performance, enhance service quality, and ensure they operate on sound banking principles.

Oct/Nov 2019

41. The EASE reform agenda is based on recommendations made during which event in November 2017?
(A) The Union Budget presentation
(B) A meeting of the Indian Banks' Association
(C) The "PSB Manthan"
(D) A NITI Aayog conclave

Ans :

(C) The "PSB Manthan"
The foundation of the EASE agenda was laid during the "PSB Manthan" event held in November 2017. This conclave brought together the Whole Time Directors (WTDs) and senior management of Public Sector Banks with government officials to deliberate on a comprehensive reform plan, which was then structured into the EASE framework.

May/June 2009

42. Which of the following is NOT one of the six original themes of EASE 1.0?
(A) Collaborative banking for synergistic outcomes
(B) Customer responsiveness
(C) Responsible Banking
(D) PSBs as Udyamimitras for MSMEs

Ans :

(A) Collaborative banking for synergistic outcomes
EASE 1.0 was launched with six specific themes to drive reforms in PSBs. These were: Customer responsiveness, Responsible Banking, Credit offtake, PSBs as Udyamimitras for MSMEs, Deepening Financial Inclusion and Digitalisation, and Ensuring outcomes - HR. 'Collaborative banking' was introduced as a new theme much later, in EASE 4.0.

Oct/Nov 2009

43. Under the 'Responsible Banking' theme of EASE 1.0, what was the purpose of establishing a Stressed Asset Management Vertical (SAMV)?
(A) To serve as the primary committee for sanctioning new large-scale corporate loans.
(B) To oversee and manage all human resource functions and policies of the bank.
(C) To lead and implement all of the bank's digital transformation and IT initiatives.
(D) To create a specialized unit for managing and resolving stressed assets.

Ans :

(D) To create a specialized unit for managing and resolving stressed assets.
A key aspect of the 'Responsible Banking' theme in EASE 1.0 was to improve the handling of bad loans. The creation of a Stressed Asset Management Vertical (SAMV) was an action point aimed at establishing a dedicated and specialized team within banks to focus exclusively on the monitoring, management, and recovery of stressed assets.

May/June 2023

44. The EASE 1.0 theme 'PSBs as Udyamimitras for MSMEs' included which of the following action points?
(A) To focus on the strategic monetisation of all realisable non-core bank assets.
(B) To ensure timely decisions on online loan applications via the Udyamimitra portal.
(C) To implement measures for strengthening and empowering the bank's Board of Directors.
(D) To mandate annual role-based e-learning modules for all categories of bank employees.

Ans :

NODIA

May/June 2013

26. The developmental objectives of NaBFID primarily include:
(A) To facilitate development of the market for infrastructure bonds, loans, and derivatives.
(B) To focus primarily on maximising short-term profits derived from all lending activities.
(C) To take on the role of directly managing and operating projects like highways and ports.
(D) To assume responsibility for conducting monetary policy on behalf of the Reserve Bank.

Ans :

(A) To facilitate development of the market for infrastructure bonds, loans, and derivatives.
NaBFID has a dual mandate of financial and developmental objectives. Beyond its primary financial role of lending to projects, its key developmental objective is to act as a catalyst for the broader infrastructure financing ecosystem. This includes actively working to deepen and develop the domestic market for infrastructure-related bonds, loans, and derivatives.

Oct/Nov 2021

27. Which of the following is a specified function of NaBFID?
(A) Accepting demand deposits from the general public.
(B) Providing short-term trade finance to exporters.
(C) Regulating the operations of scheduled commercial banks.
(D) Attracting investment from private sector investors for infrastructure projects.

Ans :

(D) Attracting investment from private sector investors for infrastructure projects.
NaBFID's functions are centered on boosting infrastructure investment. One of its key roles is to act as a magnet for capital, specifically by attracting investments from both private sector and institutional investors into infrastructure projects. This function goes beyond direct lending and includes creating a conducive environment for private capital to participate in nation-building activities.

May/June 2024

28. NaBFID is permitted to raise money through which of the following means?
(A) Only by issuing bonds and debentures in Indian Rupees.
(B) By issuing financial instruments like bonds and debentures in both Indian and foreign currencies.
(C) Only by taking loans from the central government.
(D) Only by accepting fixed deposits from high-net-worth individuals.

Ans :

(B) By issuing financial instruments like bonds and debentures in both Indian and foreign currencies.
To fulfill its large-scale funding requirements, NaBFID has been granted flexibility in its resource mobilization. It is empowered to raise money in both domestic (Indian Rupees) and international markets (foreign currencies). The instruments it can use include the issue and sale of bonds, debentures, and securing loans, providing it with a diverse range of funding sources.

Oct/Nov 2017

29. From which of the following institutions is NaBFID explicitly permitted to borrow money?
(A) State governments
(B) Regional Rural Banks
(C) Reserve Bank of India (RBI)
(D) NITI Aayog

Ans :

(C) Reserve Bank of India (RBI)
The framework for NaBFID's funding sources explicitly lists several key institutions from which it can borrow. These include the central government, scheduled commercial banks, mutual funds, multilateral institutions like the World Bank and Asian Development Bank, and notably, the Reserve Bank of India (RBI). This access provides NaBFID with significant financial backstops.

May/June 2008

30. Who was designated as the first Chairperson of NaBFID in October 2021?
(A) The Governor of the RBI
(B) The Finance Minister of India
(C) The Chairperson of the State Bank of India
(D) Shri K V Kamath

Ans :

(D) Shri K V Kamath

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May/June 2018

58. What is the primary focus of EASE 5.0?
(A) Digital customer experience and integrated & inclusive banking.
(B) Physical branch rationalization and cost cutting.
(C) Exclusively on agricultural lending.
(D) Strengthening the board of directors and top management.

Ans :

(A) Digital customer experience and integrated & inclusive banking.
EASE 5.0 continues the reform momentum with a strong emphasis on technology and customer-centricity. It focuses on enhancing the digital customer experience and promoting integrated and inclusive banking. A key part of this is supporting small businesses and agriculture through improved digital and integrated financial services, responding to evolving customer needs.

Oct/Nov 2011

59. An overview diagram of the EASE 5.0 agenda shows five main pillars: 'Digitally-enabled customer offerings', 'Big data and analytics', 'Modern technology capabilities', 'Collaborative and development-focused banking', and 'Employee development and governance'. Based on this diagram, which of the following initiatives falls under the 'Big data and analytics' pillar?
(A) Broadening and deepening co-lending partnerships.
(B) Comprehensive digital banking for MSMEs.
(C) Open API banking for integration with new-age businesses.
(D) Analytics to drive customer retention.

Ans :

(D) Analytics to drive customer retention.
The diagram clearly categorizes different initiatives under five distinct pillars. The initiative 'Analytics to drive customer retention' is explicitly listed as a use case under the 'Big data and analytics' pillar. This highlights the agenda's focus on using data science to understand customer behavior and proactively prevent attrition, thereby improving business stability and profitability.

May/June 2010

60. The EASE 5.0 agenda includes an initiative for 'Open API banking'. What is the purpose of this initiative?
(A) To conduct open audits of the bank's IT systems.
(B) To allow integration with new-age businesses and FinTechs.
(C) To provide open-source banking software to all customers.
(D) To create an open forum for employee grievances.

Ans :

(B) To allow integration with new-age businesses and FinTechs.
Open API (Application Programming Interface) banking is an initiative under the 'Modern technology capabilities' pillar of EASE 5.0. It involves banks securely opening up their data and services to third-party developers, such as new-age businesses and FinTech companies. This enables the creation of new integrated products and services, fostering innovation and collaboration.

Oct/Nov 2024

61. Which of the following is an incorrect statement regarding the features of infrastructure?
(A) Infrastructure requires heavy financial investment.
(B) Infrastructure facilities create externalities.
(C) Infrastructure projects typically have short gestation periods.
(D) Many infrastructure facilities exhibit features of a natural monopoly.

Ans :

(C) Infrastructure projects typically have short gestation periods.
A defining feature of infrastructure is its long gestation period, meaning there is a significant time lag between investment and the start of output generation. The statement that they have short gestation periods is incorrect. They do require heavy investment, create externalities, and often have characteristics of natural monopolies due to large economies of scale.

NODIA

May/June 2017

62. Match the DFI with its year of establishment.

	List-I (DFI)		List-II (Year)

Ans :

(C) PSBs hold 51% in NARCL and 49% in IDRCL. The ownership structure is distinct for the two entities. For the National Asset Reconstruction Company (NARCL), which acquires the assets, public sector banks are mandated to hold a majority stake of 51%. For the India Debt Resolution Co. Ltd (IDRCL), the operational arm, public sector banks and public financial institutions will hold a minority stake of 49%.

May/June 2022

36. To focus on large, systemic accounts, what is the minimum loan amount for a stressed asset to be eligible for transfer to NARCL?
(A) Rs 1,000 crore
(B) Rs 250 crore
(C) Rs 750 crore
(D) Rs 500 crore

Ans :

(D) Rs 500 crore
The operational framework for the Bad Bank specifies a threshold for the loans it will acquire to focus on large, systemic accounts. The minimum cut-off amount for the transfer of a loan to NARCL is set at Rs 500 crore.

Oct/Nov 2023

37. When banks sell bad loans to NARCL, what is the agreed-upon structure of payment they receive?
(A) 100% in cash upfront.
(B) 100% in the form of Security Receipts (SRs).
(C) 15% in cash and the balance 85% in the form of Security Receipts.
(D) 51% in cash and the balance 49% in the form of Security Receipts.

Ans :

(C) 15% in cash and the balance 85% in the form of Security Receipts.
The transaction structure for the sale of bad loans to NARCL involves a combination of immediate cash and deferred, risk-sharing instruments. Banks receive 15% of the agreed value in cash upfront. The remaining 85% is paid in the form of Security Receipts (SRs), whose value realization depends on the eventual recovery from the stressed asset.

May/June 2006

38. What is the total amount of government guarantee provided for the Security Receipts issued by NARCL, and for how long is it valid?
(A) Rs 30,600 crores, valid for 10 years.
(B) Rs 30,600 crores, valid for 5 years.
(C) Rs 2 lakh crores, valid for 5 years.
(D) Rs 90,000 crores, valid for 3 years.

Ans :

(B) Rs 30,600 crores, valid for 5 years.
To provide credibility to the Security Receipts (SRs) and encourage banks to accept them, the central government has provided a backstop. It has committed to a guarantee for the SRs up to a total amount of Rs 30,600 crores. This government guarantee has a limited validity period of 5 years, which is intended to incentivize NARCL to speed up resolution.

Oct/Nov 2007

39. Based on the table below outlining the features of NARCL, what is the value of assets to be transferred in the second phase?

Particulars	Amount (Rs crores)	% of banking sector loans
Total assets to be transferred	200,000	1.8%
Phase 1 Assets to be transferred	90,000	0.8%
Phase 2 Assets to be transferred	110,000	1.0%

(A) Rs 90,000 crores
(B) Rs 200,000 crores
(C) Rs 30,600 crores
(D) Rs 110,000 crores

Ans :

(D) Rs 110,000 crores
The provided table clearly outlines the two-phase approach for asset transfer to NARCL. The total target is Rs 2 lakh crores. Phase 1 involves the transfer of Rs 90,000 crores. The table explicitly states that the assets to be transferred in Phase 2 amount to Rs 110,000 crores.

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To lead the newly established institution, the government appointed a seasoned professional from the banking and finance industry. In October 2021, veteran banker Shri K. V. Kamath was designated as the first Chairperson of NaBFID, bringing his extensive experience in project and infrastructure financing to steer the DFI in its initial, critical phase.

Oct/Nov 2013

31. What is the concessional rate at which the central government will provide a guarantee for NaBFID's borrowings from certain foreign funds?
(A) Up to 0.1%
(B) Up to 1.0%
(C) Up to 0.5%
(D) A rate of 0%

Ans :

(A) Up to 0.1%
To enhance NaBFID's ability to raise funds from international sources at competitive rates, the central government provides significant support. This includes offering a guarantee for its borrowings from multilateral institutions, sovereign wealth funds, and other foreign entities at a highly concessional rate of up to 0.1%, thereby lowering the cost of funds for NaBFID.

May/June 2015

32. As of March 2021, what was the approximate value of gross non-performing assets (NPAs) reported by Indian banks?
(A) Rs 2.1 lakh crore
(B) Rs 8.3 lakh crore
(C) Rs 5.3 lakh crore
(D) Rs 11.3 lakh crore

Ans :

(B) Rs 8.3 lakh crore
The context for the establishment of a "Bad Bank" was the significant level of stress in the banking system. As of March 2021, Indian banks had reported a substantial amount of gross non-performing assets, totaling over Rs 8.3 lakh crore. This large stock of stressed assets was seen as a drag on bank profitability and lending capacity.

Oct/Nov 2012

33. What is the primary objective of establishing a "Bad Bank" like the National Asset Reconstruction Company (NARCL)?
(A) To provide fresh loans to companies whose accounts have become NPAs.
(B) To take over NPAs from banks, allowing them to focus on core business.
(C) To act as a commercial bank for entities with poor credit history.
(D) To audit the balance sheets of public sector banks annually.

Ans :

(B) To take over NPAs from banks, allowing them to focus on core business.
The core purpose of a Bad Bank is to serve as a centralized agency for resolving stressed assets. By transferring their Non-Performing Assets (NPAs) to this entity, banks can clean up their own balance sheets. This allows the banks to free up capital and management bandwidth, enabling them to concentrate on their primary business of lending and growth.

May/June 2011

34. What is the role of the India Debt Resolution Co. Ltd (IDRCL) in the Bad Bank structure?
(A) It is a service company that manages the assets and engages resolution experts.
(B) It aggregates and consolidates stressed assets from various banks.
(C) It provides the initial 15% cash payment to the banks for the NPAs.
(D) It holds the 51% majority equity stake on behalf of public sector banks.

Ans :

(A) It is a service company that manages the assets and engages resolution experts.
The Bad Bank framework has a twin structure. The National Asset Reconstruction Company (NARCL) acquires the stressed assets. Subsequently, the India Debt Resolution Co. Ltd (IDRCL), which is an operational entity or service company, takes over the management of these assets. IDRCL's role is to engage market professionals and turnaround experts to find a resolution for the acquired debt.

Oct/Nov 2020

35. What is the mandated ownership structure for NARCL and IDRCL regarding public sector banks (PSBs)?
(A) PSBs hold 51% in NARCL and 51% in IDRCL.
(B) PSBs hold 49% in NARCL and 51% in IDRCL.
(C) PSBs hold 51% in NARCL and 49% in IDRCL.
(D) PSBs hold 49% in NARCL and 49% in IDRCL.

NODIA

(B) To ensure timely decisions on online loan applications via the Udyamimitra portal.

The theme focusing on MSMEs aimed to improve credit access and the ease of doing business for them. A specific action point under this theme was to leverage the Udyamimitra portal for online loan applications and to ensure that a decision on these applications is communicated to the applicant within a defined timeline of 15 days.

Oct/Nov 2018

45. What was the primary objective of the EASE 2.0 reform programme?

(A) To introduce and implement the very first set of reforms in Public Sector Banks.
(B) To shift the entire reform focus exclusively onto digital transformation and IT upgrades.
(C) To make the reform journey irreversible by strengthening core processes and systems.
(D) To complete and finalize the large-scale amalgamation of several Public Sector Banks.

Ans :

(C) To make the reform journey irreversible by strengthening core processes and systems.

Building on the foundation of EASE 1.0, the EASE 2.0 programme aimed to embed the reforms more deeply into the banks' operations. Its stated goal was to make the reform journey irreversible by strengthening core banking processes, hard-wiring sound IT systems, and systematically addressing the root causes of weaknesses in Public Sector Banks.

May/June 2007

46. The introduction of Early Warning Signals (EWS) systems in PSBs was a key initiative under which EASE edition?

(A) EASE 1.0
(B) EASE 3.0
(C) EASE 4.0
(D) EASE 2.0

Ans :

(D) EASE 2.0

EASE 2.0 was instrumental in systematically addressing weaknesses in risk management within Public Sector Banks. It stimulated the introduction of specialized monitoring and Early Warning Signals (EWS) systems. These systems were designed to detect early signs of stress in loan accounts, allowing for timely, time-bound action to prevent them from turning into NPAs.

Oct/Nov 2025

47. A progress report on EASE reforms between March-19 and Dec-19 showed the following score changes: 'Responsible banking' increased from 45.7 to 68.4 (50% growth), and 'PSBs as Udyamimitra for MSMEs' increased from 39.3 to 59.2 (51% growth). Based on this data, which two themes saw the highest percentage improvements?

(A) Responsible Banking and PSBs as Udyamimitra for MSMEs
(B) Customer responsiveness and Credit off-take
(C) Deepening FI and Digitalisation and Governance and HR
(D) Overall and Customer responsiveness

Ans :

(A) Responsible Banking and PSBs as Udyamimitra for MSMEs

The data explicitly highlights the percentage increases. The score for 'Responsible Banking' grew from 45.7 to 68.4, representing a 50% increase. The score for 'PSBs as Udyamimitra for MSMEs' grew from 39.3 to 59.2, representing a 51% increase. These two themes showed the most significant improvements among all the six EASE themes during that period.

NODIA

May/June 2012

48. What was the central focus of the EASE 3.0 reform agenda launched in FY21?

(A) Recapitalization of Public Sector Banks.
(B) Catalyzing customer-centric digital transformation initiatives.
(C) Physical branch expansion in rural areas.
(D) The establishment of the National Asset Reconstruction Company.

Ans :

(B) Catalyzing customer-centric digital transformation initiatives.

EASE 3.0 marked a shift in focus towards leveraging technology for customer convenience and operational efficiency. Its primary goal was to accelerate the adoption of customer-centric digital transformation. This involved emphasizing the use of digital tools, analytics, AI, and FinTech partnerships to create 'digital- and data-driven NextGen banks' for an enhanced customer experience.

Oct/Nov 2006

49. Which of the following was a key theme under EASE 3.0?
(A) Deepening Financial Inclusion and Digitalisation
(B) Smart Lending for Aspiring India
(C) PSBs as Udyamimitras for MSMEs
(D) Responsible Banking

Ans :

(B) Smart Lending for Aspiring India
EASE 3.0 was structured around four new, technology-focused themes. These were: Smart Lending for Aspiring India; Hard wiring sound banking through IT systems; Tech-enables ease of Banking; and Governance and outcome-centric HR. The earlier themes from EASE 1.0 and 2.0 were evolved and integrated into this new framework.

May/June 2019

50. The concept of "Dial-a-loan for doorstep facilitation" was introduced under which theme of EASE 3.0?
(A) Smart Lending for Aspiring India
(B) Hard-wiring sound banking through IT systems
(C) Governance and outcome-centric HR
(D) Tech-enabled Ease of Banking

Ans :

(A) Smart Lending for Aspiring India
The "Smart Lending for Aspiring India" theme under EASE 3.0 focused on making the credit process more accessible and efficient for customers. "Dial-a-loan for doorstep facilitation" was a key initiative within this theme, aiming to provide customers with the convenience of initiating a loan process from their homes, with bank services reaching them directly.

Oct/Nov 2016

51. Consider the following statements regarding EASE 3.0:
Statement 1: It emphasized the use of digital, analytics, and AI in banking.
Statement 2: It introduced "Palm Banking" for end-to-end digital delivery of financial services.
Which of the following is correct?
(A) Statement 1 is correct, but Statement 2 is incorrect.
(B) Statement 2 is correct, but Statement 1 is incorrect.
(C) Both Statement 1 and Statement 2 are correct.
(D) Both Statement 1 and Statement 2 are incorrect.

Ans :

(C) Both Statement 1 and Statement 2 are correct.
EASE 3.0 was fundamentally about transforming PSBs into data-driven, digital-first institutions, so Statement 1 is correct. A specific initiative under its "Tech-enabled Ease of Banking" theme was "Palm Banking," which aimed to provide end-to-end digital delivery of financial services, making banking more accessible and convenient. Therefore, Statement 2 is also correct.

May/June 2016

52. An excerpt from the themes of EASE 3.0 lists action points under 'Hard-wiring sound banking through IT systems'. These include 'Collections and Recovery Management Systems', 'Risk Scoring & Scrutiny Platform', and 'Early Warning Signals System for SOP-driven remedial actions'. Based on this, the 'Hard-wiring sound banking' theme of EASE 3.0 primarily focused on:
(A) Improving the user interface of customer-facing mobile apps.
(B) Developing new specialized job families and HR cadres.
(C) Facilitating data-sharing partnerships with Account Aggregators.
(D) Strengthening risk management and recovery processes through technology.

Ans :

(D) Strengthening risk management and recovery processes through technology.
The action points listed in the source, such as recovery management systems, risk scoring platforms, and early warning signal systems, are all core components of a bank's risk management and control framework. The theme's objective was to embed these functions deeply into the bank's IT infrastructure to ensure robust, technology-driven, and sound banking practices.

Oct/Nov 2014

53. What is the aim of the 'New Age 24×7 banking with resilient technology' theme introduced in EASE 4.0?
(A) To significantly increase the total number of physical bank branches nationwide.
(B) To focus the bank's entire strategy solely on co-lending with NBFC partners.

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(C) To ensure uninterrupted availability of key banking services via technology.
(D) To develop and implement new HR policies focused on employee job satisfaction.

Ans :

(C) To ensure uninterrupted availability of key banking services via technology.
This new theme in EASE 4.0 addresses the growing customer expectation for round-the-clock banking. Its objective is to ensure the uninterrupted, 24×7 availability of key banking services by improving the reliability of technology platforms and aligning internal processes within PSBs to support continuous service delivery, especially through digital channels like mobile and internet banking.

May/June 2021

54. The EASE 4.0 theme 'Collaborative banking for synergistic outcomes' specifically aims at maximizing synergies through collaboration between PSBs and which other type of entity?
(A) Foreign Banks
(B) Non-Banking Financial Companies (NBFCs)
(C) Regional Rural Banks
(D) State Cooperative Banks

Ans :

(B) Non-Banking Financial Companies (NBFCs)
The theme of 'Collaborative banking' under EASE 4.0 promotes partnerships to enhance reach and efficiency. A key focus of this theme is to foster collaboration between Public Sector Banks and the broader financial ecosystem, specifically mentioning Non-Banking Financial Companies (NBFCs) for the coordinated handling of co-originated loans to leverage mutual strengths.

Oct/Nov 2010

55. A Public Sector Bank, as part of its EASE 4.0 implementation, decides to partner with an AgriTech firm to get alternative data for assessing creditworthiness of farmers who lack formal credit history. This action aligns with which initiative of EASE 4.0?
(A) 24×7 banking with resilient technology
(B) Co-lending with NBFCs
(C) Deeper penetration of Mobile & Internet banking
(D) Data-enabled agricultural financing

Ans :

(D) Data-enabled agricultural financing
The scenario describes using digital data from a third-party AgriTech firm for Agri financing. This directly aligns with the EASE 4.0 initiative of 'Data-enabled agricultural financing', which encourages partnerships with third parties for alternate data exchange. This helps banks make better lending decisions for the agricultural sector, especially for customers with limited traditional financial data.

May/June 2014

56. Which initiative under EASE 4.0 focuses on 'End-to-end digital retail and MSME lending for New to bank customers'?
(A) Smart Lending
(B) Data-enabled agricultural financing
(C) Collaborating with financial ecosystem
(D) 24×7 banking with resilient technology

Ans :

(A) Smart Lending
The 'Smart Lending' theme in EASE 4.0 includes the 'Credit@click' initiative. This specific action point is aimed at creating a fully digital, end-to-end lending process for retail and MSME customers, with a particular focus on acquiring 'New to bank' customers through a seamless and quick online experience, from application to disbursal.

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Oct/Nov 2005

57. The EASENext programme, launched in June 2022, comprises which two major initiatives?
(A) EASE 5.0 and a bank-specific 1-year roadmap.
(B) EASE 5.0 and a common PSB reforms agenda.
(C) EASE 5.0 and a bank-specific strategic 3-year roadmap.
(D) EASE 4.0 continuation and a bank-specific 5-year roadmap.

Ans :

(C) EASE 5.0 and a bank-specific strategic 3-year roadmap.
The EASENext programme represents the next phase of PSB reforms. It has two core components: first, EASE 5.0, which is the common reforms agenda applicable to all PSBs. Second, it requires each PSB to create its own bank-specific strategic 3-year roadmap, allowing for customization based on individual bank's business priorities and strengths.

Oct/Nov 2024

21. When did the National Bank for Financing Infrastructure and Development (NaBFID) Bill, 2021, become an Act?
(A) March 22, 2021
(B) July 7, 2021
(C) March 28, 2021
(D) October 1, 2021

Ans :

(C) March 28, 2021
The legislative process for establishing NaBFID moved swiftly in 2021. The National Bank for Financing Infrastructure and Development Bill, 2021, was introduced in the Lok Sabha on March 22, 2021. It subsequently received the approval of the President of India on March 28, 2021, at which point it was enacted into law.

May/June 2017

22. What is the primary objective of the NaBFID Act as stated in its preamble?
(A) To act as the primary regulator for all commercial banking operations in India.
(B) To support the development of long-term non-recourse financing for infrastructure.
(C) To focus exclusively on providing micro-credit to small and medium-sized enterprises.
(D) To actively manage the central government's entire portfolio of sovereign wealth funds.

Ans :

(B) To support the development of long-term non-recourse financing for infrastructure.
The preamble of the NaBFID Act clearly articulates its core purpose. It is established to foster the development of long-term non-recourse infrastructure financing in India. This includes not just direct lending but also the development of bond and derivatives markets that are essential for a robust infrastructure financing ecosystem, distinguishing it from conventional banking.

Oct/Nov 2005

23. What is the authorised share capital of the National Bank for Infrastructure and Development (NaBFID)?
(A) Rs 5,000 crore
(B) Rs 25,000 crore
(C) Rs 2 lakh crore
(D) Rs 1 lakh crore

Ans :

(D) Rs 1 lakh crore
The NaBFID Act establishes the institution as a corporate body with a substantial capital base to support its large-scale financing objectives. The Act specifies an authorised share capital of Rs 1 lakh crore, signaling the significant financial scale envisioned for its operations in the infrastructure sector. This large capital base is essential for its role.

May/June 2020

24. According to the NaBFID Act, what is the minimum level to which the central government's shareholding in NaBFID can eventually be reduced?
(A) 26%
(B) 51%
(C) 49%
(D) 0%

Ans :

(A) 26%
The ownership structure of NaBFID is designed for an eventual public-private partnership model. While the central government will initially own 100% of the shares to provide stability and credibility, the Act provides for this stake to be subsequently reduced. However, the government is required to maintain a minimum strategic shareholding of at least 26%.

Oct/Nov 2015

25. Which of the following is NOT listed as a potential shareholder of NaBFID?
(A) Sovereign wealth funds
(B) Pension funds
(C) Individual retail investors
(D) Multilateral institutions

Ans :

(C) Individual retail investors
The NaBFID Act specifies that its shares may be held by institutional investors. The list includes the central government, multilateral institutions (like the World Bank), sovereign wealth funds, pension funds, insurers, financial institutions, and banks. The structure is designed for large, long-term institutional investment, and individual retail investors are not mentioned as a category of shareholders.

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P.	IFCI	1.	1990
Q.	IDBI	2.	1982
R.	EXIM Bank	3.	1964
S.	SIDBI	4.	1948

(A) P-4, Q-3, R-2, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-2, R-3, S-1
(D) P-3, Q-4, R-1, S-2

Ans :

(A) P-4, Q-3, R-2, S-1
The correct chronological establishment of these Development Financial Institutions is as follows: Industrial Finance Corporation of India (IFCI) in 1948; Industrial Development Bank of India (IDBI) in 1964; Export-Import Bank of India (EXIM Bank) in 1982; and Small Industries Development Bank of India (SIDBI) in 1990. This matching aligns with the historical development of DFIs in India.

Oct/Nov 2008

63. Assertion (A): The establishment of NaBFID is considered a return to the past model of development financing.
Reason (R): Commercial banks are unable to freely extend long-term credit for the infrastructure sector due to risks like maturity mismatch.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that NaBFID's creation marks a return to the DFI model is true. The reason provided is also true; commercial banks, which primarily rely on short-term deposits, face significant asset-liability maturity mismatch and other risks when funding long-gestation infrastructure projects. This inability of commercial banks is the precise justification for re-establishing a specialized DFI, making (R) the correct explanation for (A).

May/June 2020

64. Which of the following statements about the EASE agenda is incorrect?
(A) The EASE index measures the performance of each PSB on over 120+ objective metrics.
(B) EASE 1.0 was the final version of the reform, consolidating all changes.
(C) EASE 2.0 was launched in 2019-2020 and aimed at making the reform journey irreversible.
(D) EASE 3.0 was launched in FY21 with a focus on customer-centric digital transformation.

Ans :

(B) EASE 1.0 was the final version of the reform, consolidating all changes.
The statement that EASE 1.0 was the final version is incorrect. EASE has been a sequential and evolving reform process, with subsequent versions like EASE 2.0, 3.0, 4.0, and 5.0 being rolled out since 2018. Each version builds upon the previous one, introducing new themes and deepening the reforms in Public Sector Banks.

NODIA

Oct/Nov 2015

65. A PSB is aiming to improve its performance under the EASE 3.0 theme 'Tech-enabled Ease of Banking'. Which of the following actions would be most appropriate for the bank to undertake?
(A) Introducing a new, comprehensive Loan Management System for faster credit processing.
(B) Launching "Banking on the go" via paperless, digital outlets in public spaces.
(C) Establishing a dedicated Stressed Asset Management Vertical (SAMV) for NPA resolution.
(D) Focusing the bank's strategy on building co-lending partnerships with various NBFCs.

Ans :

(B) Launching "Banking on the go" via paperless, digital outlets in public spaces.
The theme 'Tech-enabled Ease of Banking' under EASE 3.0 was focused on bringing banking services closer to the customer in convenient formats. The initiative "Banking on the go" through digitally-enabled outlets at frequently visited spots like malls and stations is a specific action point under this theme, directly aligning with its objective of enhancing convenience.

CHAPTER 29
Financial Markets

May/June 2016

1. According to the stated objective of the unit, what is the primary purpose of providing perspectives on the Indian Financial System?

(A) To evaluate the performance of the stock market exclusively

(B) To understand its role in the economic development of the country

(C) To focus solely on the history of financial institutions

(D) To provide a comparative analysis with global financial systems

Ans :

(B) To understand its role in the economic development of the country

The unit's objective is to provide readers with perspectives on the Indian Financial System, covering its characteristics, components, and functions. A key part of this objective is to understand the system's significant role in the overall economic development of India, highlighting the linkage between finance and broader economic growth, which is a core theme.

Oct/Nov 2023

2. In the context of the Indian financial system, what is the most accurate description of a financial market?

(A) A place or platform where financial products are bought and sold

(B) A physical location where only government bonds are traded

(C) An abstract concept referring to the flow of funds between banks

(D) A formal institution that only facilitates corporate lending

Ans :

(A) A place or platform where financial products are bought and sold

A financial market is defined as a place, which can be formal or informal, where financial products are specifically transacted. This is distinct from a general market for commodities. The definition encompasses the entire ecosystem for buying and selling financial instruments, not just a physical location or a single type of transaction or product.

May/June 2021

3. What three core components constitute a financial system?

(A) Savers, investors, and regulators

(B) Banks, stock exchanges, and insurance companies

(C) Financial institutions, financial products, and financial markets

(D) Government, corporations, and individuals

Ans :

(C) Financial institutions, financial products, and financial markets

A financial system is built upon three fundamental pillars. Financial institutions act as intermediaries, financial products are the instruments used for investment and borrowing, and financial markets provide the platform for these products to be traded. The system's completeness depends on the effective interaction of all three components to channel wealth from savers to investors.

Oct/Nov 2014

4. How does the economist's definition of a 'market' differ from its ordinary usage?

(A) It exclusively refers to a physical place like a village market.

(B) It focuses on the stages a commodity passes through from producer to consumer.

(C) It is limited to the transactions conducted by producers only.

(D) It refers abstractly to purchase and sale transactions and price formation.

Ans :

(D) It refers abstractly to purchase and sale transactions and price formation.

Economists use the term 'market' in an abstract sense. It does not literally mean a physical location but rather the collective interaction of

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May/June 2008

70. A commercial bank is hesitant to fund a new, large-scale urban metro rail project. The project has significant social benefits but is expected to have low initial profitability and a very long break-even period. The bank is concerned about the asset-liability mismatch. This situation highlights the need for which type of institution?

(A) A commercial bank with a larger deposit base.
(B) A Development Finance Institution (DFI).
(C) A Non-Banking Financial Company (NBFC).
(D) A Small Finance Bank.

Ans :

(B) A Development Finance Institution (DFI).

The scenario describes a project of national importance with long gestation, low initial returns, and high social benefits. Commercial banks are often unwilling to fund such projects due to the maturity mismatch and commercial return standards. This is the precise gap that a Development Finance Institution (DFI) like NaBFID is designed to fill by providing long-term, patient capital.

NODIA

accept fixed long-term investment horizons.
(B) By providing long-term finance from savers who may have shorter-term preferences.
(C) By restricting corporations to only short-term borrowing options for all types of project financing.
(D) By dealing exclusively in perpetual financial instruments that possess no fixed maturity date.

Ans :

(B) By providing long-term finance from savers who may have shorter-term preferences.
A key function of the capital market is to resolve the mismatch in maturity preferences. Borrowers like corporations often need long-term funds for projects, while savers (lenders) may prefer shorter-term, liquid investments. The market, through mechanisms like secondary market trading, allows savers to exit their investments, thereby encouraging them to provide long-term capital.

May/June 2011

29. Before the liberalisation of the insurance sector, which two entities undertook life and non-life insurance business in India, respectively?
(A) SEBI and RBI
(B) Multiple private companies
(C) Life Insurance Corporation (LIC) and General Insurance Corporation (GIC)
(D) IRDA and AMFI

Ans :

(C) Life Insurance Corporation (LIC) and General Insurance Corporation (GIC)
In the pre-liberalisation era, the Indian insurance sector was a state monopoly. The Life Insurance Corporation of India (LIC) had the exclusive mandate for life insurance business. The non-life insurance business was handled by the General Insurance Corporation of India (GIC) and its four subsidiary companies, with no private sector participation allowed.

Oct/Nov 2021

30. The Committee on Reform of the Insurance Sector, which recommended opening up the sector in 1994, was chaired by whom?
(A) Dr. Manmohan Singh
(B) Shri M. Narasimham
(C) Dr. C. Rangarajan
(D) Shri R. N. Malhotra

Ans :

(D) Shri R. N. Malhotra
In the wake of financial liberalisation, the government appointed a committee to suggest reforms for the insurance industry. This committee, which submitted its report in 1994 recommending the entry of the private sector and the establishment of an independent regulatory body, was headed by Shri R. N. Malhotra, a former governor of the RBI.

May/June 2015

31. The recommendations of the Malhotra Committee led to the enactment of which Act in 1999?
(A) The Insurance Regulatory and Development Authority (IRDA) Act
(B) The Securities and Exchange Board of India Act
(C) The Banking Regulation Act
(D) The Foreign Exchange Management Act

Ans :

(A) The Insurance Regulatory and Development Authority (IRDA) Act
Following the recommendations of the R. N. Malhotra Committee, the Indian Parliament passed the Insurance Regulatory and Development Authority (IRDA) Act in 1999. This landmark legislation established a separate, independent authority to regulate and develop the insurance industry and formally opened the sector to private and foreign participation, ending the state monopoly.

Oct/Nov 2008

32. What is the fundamental mechanism of a Mutual Fund?
(A) By providing direct, collateralized loans to large corporations for expansion.
(B) By pooling investor resources to buy a diversified securities portfolio.
(C) By issuing specialized insurance policies to protect investors against market risks.
(D) By offering secure custodial services for holding physical share certificates for clients.

Ans :

(B) By pooling investor resources to buy a diversified securities portfolio.
A Mutual Fund operates as a mechanism for collective investment. It pools money from

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buyers (demand side) and sellers (supply side). These countless decisions and transactions together determine the price of a commodity, forming the core of the market mechanism from an economic perspective.

May/June 2012

5. What is the process by which prices in a financial market are determined by the forces of demand and supply?
(A) Price Regulation
(B) Price Administration
(C) Price Discovery
(D) Price Stabilisation

Ans :

(C) Price Discovery
Price Discovery is the specific procedure through which the price of a financial asset is determined. This occurs in a market environment where buyers and sellers trade assets like money, securities, and derivatives. The equilibrium price is established based on the interaction of demand and supply forces, ensuring transactions occur at low costs.

Oct/Nov 2005

6. Which of the following was a key characteristic of most Indian financial markets until the early 1990s?
(A) Free pricing of financial assets and the prevalence of low transaction costs
(B) Controls over the pricing of financial assets and restrictions on fund flows
(C) High levels of market liquidity and a complete absence of entry barriers
(D) A high degree of market integration and mandated levels of transparency

Ans :

(B) Controls over the pricing of financial assets and restrictions on fund flows
Before the financial sector reforms of the early 1990s, Indian financial markets were highly regulated. They were characterized by controls on asset pricing, restrictions on transactions, significant barriers to entry for new participants, low liquidity, and high transaction costs. These factors hindered the markets' development and allocative efficiency of resources channeled through them.

May/June 2008

7. What was the primary goal of the financial sector reforms initiated in the early 1990s in India?
(A) To centralize and increase direct government control over the pricing of all financial assets
(B) To strictly limit the number and complexity of financial instruments available for trading
(C) To reinforce existing barriers to entry for new participants and reduce foreign participation
(D) To bring about a transformation in the structure, efficiency, and stability of financial markets

Ans :

(D) To bring about a transformation in the structure, efficiency, and stability of financial markets
The financial sector reforms of the early 1990s were aimed at fundamentally transforming India's financial markets. The key objectives were to improve the structure, enhance operational efficiency, ensure stability, and promote better integration among different market segments. This was achieved by moving towards a more market-oriented system with reduced controls and greater transparency.

Oct/Nov 2019

8. Identify the statement that correctly describes a structural change enabled by financial sector reforms in the early 1990s.
(A) Introduction of free pricing of financial assets in most segments.
(B) Introduction of stricter controls over the pricing of financial assets.
(C) Imposition of new barriers to entry for market participants.
(D) Reduction in transparency and disclosure practices.

Ans :

(A) Introduction of free pricing of financial assets in most segments.
A cornerstone of the financial sector reforms was the move away from administered pricing. The reforms introduced free pricing for financial assets in almost all market segments, allowing prices to be determined by market forces. This was accompanied by relaxed quantitative restrictions, removal of entry barriers, and improved transparency to enhance market efficiency.

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May/June 2024

9. Which of the following is NOT listed as a segment of the Indian financial market?
(A) Credit market
(B) Derivatives market
(C) Real estate market
(D) Mutual Fund market

Ans :

(C) Real estate market
The text explicitly lists the segments of the financial market as the credit market, money market, debt market, foreign exchange market, derivatives market, capital market, insurance market, and mutual fund market. While real estate is an asset class, the real estate market itself is not classified as a primary segment of the financial market.

Oct/Nov 2011

10. Who are considered the major institutional purveyors of credit in India?
(A) Various types of banks and Non-Banking Financial Companies (NBFCs)
(B) Traditional unorganised sources such as moneylenders and indigenous bankers exclusively
(C) Only business sellers who are offering trade credit as part of commercial transactions
(D) The primary financial regulators, namely the Reserve Bank of India and SEBI

Ans :

(A) Various types of banks and Non-Banking Financial Companies (NBFCs)
In India, the formal or institutional credit system is dominated by various types of banks, including commercial, cooperative, and differentiated banks, along with non-banking financial companies (NBFCs). These entities are the primary channels for providing organized credit to different sectors of the economy, distinct from the unorganised sources like moneylenders.

May/June 2006

11. Which of the following are considered non-institutional or unorganised sources of credit in India?
(A) Formal institutional lenders like commercial banks and cooperative banks
(B) Regulated entities such as Non-Banking Financial Companies (NBFCs)
(C) Specialised Financial Institutions that primarily provide long-term project funds
(D) Moneylenders, indigenous bankers, and sellers for trade credit

Ans :

(D) Moneylenders, indigenous bankers, and sellers for trade credit
The unorganised credit sector consists of sources that are not formally regulated like institutional players. This category primarily includes traditional sources such as moneylenders and indigenous bankers, who have historically provided credit outside the formal banking system. Sellers providing trade credit are also considered part of this non-institutional segment of the credit market.

Oct/Nov 2022

12. The term structure of the credit market is divided into which three categories?
(A) Primary, secondary, and tertiary credit
(B) Short-term, medium-term, and long-term credit
(C) Secured, unsecured, and collateralised credit
(D) Institutional, non-institutional, and corporate credit

Ans :

(B) Short-term, medium-term, and long-term credit
An important aspect of the credit market is its term structure, which classifies credit based on its maturity period. This structure is universally categorised into short-term, medium-term, and long-term credit. Different financial entities specialise in providing funds for these varying durations, catering to the diverse needs of borrowers in the economy.

May/June 2017

13. While banks and NBFCs predominantly cater to short-term needs, which entities primarily provide medium and long-term funds?
(A) Moneylenders
(B) Indigenous bankers
(C) Financial Institutions
(D) Cooperative banks

Ans :

(C) Financial Institutions
Within the credit market's term structure, there is a specialisation among providers. While commercial banks and Non-Banking Financial

NODIA

Companies (NBFCs) focus mainly on fulfilling short-term credit requirements, specialised Financial Institutions are the primary source for medium-term and long-term funding, often directed towards infrastructure and industrial projects requiring longer gestation periods.

Oct/Nov 2009

14. What is the crucial role performed by money markets?
(A) Providing long-term equity finance for corporations
(B) Trading long-term government debt obligations
(C) Insuring businesses against operational risks
(D) Equilibrating short-term demand for and supply of funds

Ans :

(D) Equilibrating short-term demand for and supply of funds
Money markets are the cornerstone of short-term liquidity management in an economy. Their primary function is to act as a conduit for balancing the short-term demand for funds with the available supply. By doing so, they facilitate the efficient conduct of monetary policy and ensure the smooth functioning of the financial system's payment mechanisms.

May/June 2013

15. Which of the following is NOT a money market instrument?
(A) Corporate Bonds
(B) Call money
(C) Certificates of deposit
(D) Commercial paper

Ans :

(A) Corporate Bonds
Money market instruments are characterized by their short-term maturity. Call money, certificates of deposit, treasury bills, and commercial paper are all classic examples of such instruments. Corporate bonds, on the other hand, are typically long-term debt instruments issued by companies to raise capital for periods of 5 or 10 years, placing them in the debt market.

Oct/Nov 2020

16. Which private non-bank money market instrument provides liquidity primarily to the corporate sector?
(A) Repo operations
(B) Commercial paper
(C) Treasury bills
(D) Inter-bank call money

Ans :

(B) Commercial paper
While instruments like repo operations and inter-bank call money provide liquidity mainly to banks, commercial paper serves a different purpose. It is a key private non-bank money market instrument issued by corporations to raise short-term funds directly from the market. This provides an essential source of working capital and liquidity for the corporate sector.

May/June 2019

17. What is a Government Security (G-Sec)?
(A) A short-term, unsecured loan issued by a private corporation for working capital.
(B) A tradeable debt instrument issued by a Central or State Government.
(C) An equity share of a public sector undertaking representing part-ownership in the company.
(D) A complex derivative contract whose value is based on future government policy announcements.

Ans :

(B) A tradeable debt instrument issued by a Central or State Government.
A Government Security, or G-Sec, is a debt instrument issued by a sovereign government. It is tradeable in the financial market and represents the government's obligation to repay the borrowed amount. These are considered among the safest investments as they are backed by the full faith and credit of the issuing government authority.

Oct/Nov 2015

18. What are the long-term securities issued by State Governments in India called?
(A) State Development Loans (SDLs)
(B) Treasury Bills (T-Bills)
(C) Corporate Bonds
(D) Certificates of Deposit (CDs)

Ans :

(A) State Development Loans (SDLs)
While the Central Government issues various G-Secs, the specific long-term debt instruments issued by the State Governments to finance

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their fiscal deficits and developmental projects are known as State Development Loans (SDLs). These are a crucial component of the Indian debt market and function similarly to central government bonds but are issued by individual states.

May/June 2005

19. A company engaged in infrastructure projects may issue which of the following as a source of long-term funds?
(A) Commercial Paper
(B) Certificates of Deposit
(C) Debentures
(D) Treasury Bills

Ans :

(C) Debentures
Infrastructure projects require substantial long-term financing due to their long gestation periods. For this purpose, companies often turn to the debt market to issue long-term instruments. Debentures are a classic example of such an instrument, allowing a company to raise funds from investors for an extended period, which is suitable for project financing.

Oct/Nov 2018

20. The foreign exchange market in India consists of which primary participants?
(A) Exclusively the central bank (RBI) and the central government departments
(B) Primarily end-users like customers and large foreign institutional investors (FIIs)
(C) Formal trading venues like stock exchanges and their associated brokerage firms
(D) Authorised Dealer banks, customers, and the Reserve Bank of India

Ans :

(D) Authorised Dealer banks, customers, and the Reserve Bank of India
The Indian foreign exchange (forex) market has three main sets of participants. Customers (importers, exporters, individuals) create the underlying demand and supply. Banks, acting as Authorised Dealers, are the primary market makers. The Reserve Bank of India (RBI) is the third key participant, acting as the market regulator and intervening to manage volatility.

NODIA

May/June 2023

21. What significant change occurred in the Indian forex market in the year 1978?
(A) The market was closed to all private participants.
(B) The rupee was made fully convertible on the capital account.
(C) Banks were permitted by the RBI to take trading positions.
(D) Only merchant transactions were allowed for the first time.

Ans :

(C) Banks were permitted by the RBI to take trading positions.
The year 1978 marks a pivotal point in the development of India's forex market. Prior to this, banks could only conduct merchant transactions and their cover operations. In 1978, the RBI allowed banks to take trading positions for the first time, which was a significant step towards developing a more dynamic and deep forex market.

Oct/Nov 2007

22. What was the approximate daily turnover in the Indian forex market in the year 2000, which has now grown to USD 70 billion daily?
(A) USD 1 billion
(B) USD 6 billion
(C) USD 20 billion
(D) USD 50 billion

Ans :

(B) USD 6 billion
The post-liberalisation era saw a massive increase in forex market activity. The daily turnover, which stood at approximately USD 6 billion in the year 2000, has witnessed exponential growth. This figure has now surged to around USD 70 billion daily, reflecting the increased integration of the Indian economy with the global financial system.

May/June 2010

23. According to the definition provided, what is the fundamental characteristic of a derivative?
(A) It is defined by a fixed, intrinsic value that does not change over its lifetime.
(B) It contractually requires a large initial net investment from one of the parties.
(C) It is a type of contract that must be fully settled on the same day it is initiated.
(D) Its value changes in response to a change in

an underlying variable.

Ans :

(D) Its value changes in response to a change in an underlying variable.
A derivative is a financial instrument whose value is not intrinsic but is derived from an underlying asset or variable. This underlying can be an interest rate, security price, commodity price, foreign exchange rate, or a price index. The derivative's value fluctuates in direct response to changes in the value of this specified underlying.

Oct/Nov 2025

24. Which condition regarding investment is characteristic of a derivative instrument?
(A) It requires no initial net investment or a very little one.
(B) It requires a large initial net investment.
(C) The investment amount is always equal to the underlying asset's value.
(D) It requires an investment that cannot be leveraged.

Ans :

(A) It requires no initial net investment or a very little one.
A defining feature of a derivative contract is that it requires no initial net investment or an amount that is very small relative to other types of contracts that have a similar response to market changes. This leverage is what makes derivatives powerful tools for hedging and speculation, as it allows for large exposure with minimal upfront capital.

May/June 2014

25. Which two bodies are mentioned as the primary regulators for different derivative instruments in India?
(A) AMFI and IRDA
(B) Ministry of Finance and NITI Aayog
(C) Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI)
(D) Life Insurance Corporation (LIC) and General Insurance Corporation (GIC)

Ans :

(C) Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI)
The regulation of derivative instruments in India is divided between two key regulators. The Reserve Bank of India (RBI) primarily regulates interest rate and currency derivatives, which fall under its monetary policy and forex management purview. The Securities and Exchange Board of India (SEBI) regulates derivatives traded on stock exchanges, such as stock futures and options.

Oct/Nov 2016

26. Derivatives are of two distinct types. What are they?
(A) Over-the-counter (OTC) and Exchange-traded derivatives
(B) Primary and Secondary derivatives
(C) Equity and Debt derivatives
(D) Domestic and International derivatives

Ans :

(A) Over-the-counter (OTC) and Exchange-traded derivatives
Derivatives are broadly classified into two categories based on where they are traded. Over-the-counter (OTC) derivatives, like forward contracts and interest rate swaps, are customized contracts traded directly between two parties. Exchange-traded derivatives, like futures and options, are standardized contracts traded on a formal exchange, which acts as an intermediary.

May/June 2020

27. What is the primary characteristic of a capital market?
(A) It is a market for short-term funds and instruments.
(B) It is a market exclusively for government borrowing.
(C) It is a market for trading foreign currencies.
(D) It is a market for long-term equity and debt.

Ans :

(D) It is a market for long-term equity and debt.
The capital market is fundamentally the market for long-term funds. It is where governments and corporations raise long-term finance through the issuance and trading of instruments like stocks (equity) and bonds (debt). This is in sharp contrast to the money market, which deals with short-term funds having a maturity of less than one year.

Oct/Nov 2012

28. How does the capital market mediate between the conflicting maturity preferences of lenders and borrowers?
(A) By using legal mandates to force all lenders to

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May/June 2013

66. Consider the following statements regarding infrastructure financing:
1. It typically involves maturities ranging from 5 to 40 years.
2. The risks involved are generally low due to government backing.
3. The real returns are often near zero but are unlikely to be negative for extended periods.
4. Project sizes are usually small and manageable for individual investors.

Which of the above statements are correct?
(A) 1 and 3 only
(B) 2 and 4 only
(C) 1, 2, and 3 only
(D) All of the above

Ans :

(A) 1 and 3 only
Infrastructure financing is characterized by long maturities (5-40 years) and fixed, low (but positive) real returns. However, the risks are quite high due to factors like policy uncertainty and long investment periods, making statement 2 incorrect. Project amounts are typically very large, not small, making statement 4 incorrect. Thus, only statements 1 and 3 are correct.

Oct/Nov 2021

67. The management structure of NaBFID's Board of Directors includes all of the following EXCEPT:
(A) A Chairperson appointed by the central government in consultation with RBI.
(B) Up to 3 Deputy Managing Directors.
(C) A director nominated by NITI Aayog.
(D) Two directors nominated by the central government.

Ans :

(C) A director nominated by NITI Aayog.
The composition of the NaBFID Board of Directors is specified to include a Chairperson, a Managing Director, up to 3 Deputy MDs, 2 directors nominated by the central government, directors elected by shareholders, and independent directors. The text does not mention any specific provision for a director to be nominated by the NITI Aayog.

May/June 2024

68. "The EASENext programme would comprise of two major initiatives: EASE 5.0 (common PSB reforms agenda) and Bank specific strategic 3-year roadmap (based on individual bank's business priorities). Under EASE 5.0, PSBs would continue to invest in new-age capabilities and deepen the ongoing reforms to respond to evolving customer needs, changing competition and the technology environment."
Based on the paragraph, what is the purpose of the 'Bank specific strategic 3-year roadmap'?
(A) To ensure that all public sector banks follow an identical, standardized reform path.
(B) To completely replace the common reforms agenda of EASE 5.0 with a new one.
(C) To have banks focus exclusively on a five-year strategic plan for international expansion.
(D) To allow banks to create a customized reform plan based on their own priorities.

NODIA

Ans :

(D) To allow banks to create a customized reform plan based on their own priorities.
The paragraph clearly distinguishes between the common agenda (EASE 5.0) and the bank-specific roadmap. It states that the roadmap is "based on individual bank's business priorities." This implies that while a common framework exists, each bank is empowered to tailor its strategic direction for the next three years according to its unique strengths and challenges.

Oct/Nov 2017

69. Which combination of themes is part of the EASE 4.0 agenda?
1. Smart Lending
2. Data-enabled agricultural financing
3. 24×7 banking with resilient technology
4. Collaborating with financial ecosystem

(A) 1 and 2 only
(B) 3 and 4 only
(C) 1, 2 and 3 only
(D) 1, 2, 3 and 4

Ans :

(D) 1, 2, 3 and 4
The EASE 4.0 agenda is composed of several key themes and initiatives. These include Smart Lending, Data-enabled agricultural financing, 24×7 banking with resilient technology, and Collaborating with the financial ecosystem (which includes initiatives like co-lending with NBFCs and digital payments in rural areas). All four listed items are integral components of the EASE 4.0 framework.

numerous investors who share a common financial objective. These pooled funds are then invested by professional fund managers in a diversified portfolio of securities, such as stocks, bonds, and money market instruments, according to the objectives disclosed in the offer document.

May/June 2007

33. Who is the primary regulator for Mutual Funds in India?

(A) Reserve Bank of India (RBI)
(B) Securities and Exchange Board of India (SEBI)
(C) Insurance Regulatory and Development Authority (IRDA)
(D) Association of Mutual Funds of India (AMFI)

Ans :

(B) Securities and Exchange Board of India (SEBI)
In India, the entire mutual fund industry is regulated by the Securities and Exchange Board of India (SEBI). SEBI sets the rules for the formation, operation, and management of mutual funds to protect the interests of investors. While AMFI exists as a self-regulatory body, SEBI is the principal government-appointed statutory regulator for the sector.

Oct/Nov 2017

34. What is the role of the Association of Mutual Funds of India (AMFI)?

(A) It is an industry body of mutual funds that acts as a self-regulatory body.
(B) It is the primary statutory regulator for all mutual funds.
(C) It directly manages the investment portfolios of all mutual funds.
(D) It is a government agency that provides capital to mutual funds.

Ans :

(A) It is an industry body of mutual funds that acts as a self-regulatory body.
The Association of Mutual Funds of India (AMFI) is not a government regulator but a self-regulatory organisation (SRO). It is an industry association formed by the mutual funds in India. Its role is to promote the interests of the mutual fund industry, set ethical and professional standards, and encourage investor education, complementing the regulatory role of SEBI.

May/June 2018

35. What is the function of an Asset Management Company (AMC) in a mutual fund structure?

(A) To act as a custodian for the securities
(B) To audit the financial statements of the fund
(C) To employ fund managers who operate and manage the corpus fund
(D) To provide legal advice to the trustees

Ans :

(C) To employ fund managers who operate and manage the corpus fund
A mutual fund operates through an Asset Management Company (AMC). The AMC is the entity responsible for the day-to-day management of the fund's investments. It employs skilled professional fund managers who make the investment decisions—buying and selling securities—in order to meet the scheme's stated investment objectives and manage the overall corpus fund.

Oct/Nov 2010

36. What does the "Net Asset Value" (NAV) of a mutual fund scheme represent?

(A) The fixed, unchanging initial price at which fund units were offered during the new fund offer.
(B) The gross accounting profit generated by the fund's investments during a single financial year.
(C) The total uninvested cash corpus collected from all investors before any market deployment.
(D) The per-unit market value of a scheme's assets, net of expenses.

Ans :

(D) The per-unit market value of a scheme's assets, net of expenses.
The Net Asset Value (NAV) represents the per-unit market value of a mutual fund scheme. It is calculated by taking the total market value of all securities held by the scheme, subtracting any liabilities and expenses, and then dividing the result by the total number of units outstanding. It reflects the price at which investors buy or sell units.

May/June 2022

37. What is the key difference between a direct plan and a regular plan of a mutual fund scheme?

(A) Direct plans invest in stocks, while regular

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market, not the money market, which deals with short-term instruments with maturities of less than one year. All other pairs are correctly matched.

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(C) Government Regulation

The text lists several key functions of financial markets, including Price Determination, Funds Mobilisation, Liquidity, Risk Sharing, Easy Access, Reduction in transaction costs, and Capital Formation. Government Regulation, while essential for the functioning of markets, is an external oversight activity rather than an intrinsic function performed by the market itself to facilitate transactions.

Oct/Nov 2024

42. How do financial markets facilitate the function of 'Price Determination'?

(A) Through the interaction of market forces, i.e., demand and supply

(B) By allowing a central authority to set all asset prices

(C) By fixing prices based on the historical cost of the asset

(D) By using a government-mandated pricing formula for all instruments

Ans :

(A) Through the interaction of market forces, i.e., demand and supply

Financial markets perform the price determination (or price discovery) function by providing a platform where buyers and sellers interact. The prices of financial instruments are not set by a single entity but are determined by the collective forces of demand and supply within the market. This mechanism sets prices for both new and existing financial assets.

May/June 2016

43. The 'Liquidity' function of financial markets provides an opportunity for investors to do what?

(A) Mandatorily hold their securities until the specified maturity date.

(B) Systematically exchange their securities for other, less risky ones.

(C) Engage in securities lending by loaning them to other investors for a fee.

(D) Convert their financial instruments into cash at a fair market value at any time.

Ans :

(D) Convert their financial instruments into cash at a fair market value at any time.

The liquidity function is a critical service provided by financial markets. It gives investors the ability to sell their financial instruments and convert them into cash quickly at a fair price prevailing in the market. Without this function, investors would be forced to hold assets until maturity, making investments significantly less attractive.

Oct/Nov 2023

44. How do financial markets perform the 'Risk Sharing' function?

(A) By offering insurance that completely eliminates all potential investment risks.

(B) By transferring the project risk from the investment entity to the capital providers.

(C) By insuring all investments with a sovereign government guarantee against any losses.

(D) By ensuring that only completely risk-free instruments are permitted for trading.

Ans :

(B) By transferring the project risk from the investment entity to the capital providers.

Financial markets facilitate risk sharing by separating the entity that undertakes an investment (e.g., a company) from the persons who provide the capital (investors). The risk associated with the business venture is transferred to these investors, who are willing to bear it in exchange for potential returns. This allows for risk diversification among many participants.

May/June 2021

45. How do financial markets provide 'Easy Access' to both industries and investors?

(A) By mandating that all transactions must happen in person

(B) By providing free financial advice to all participants

(C) By bringing together potential buyers and sellers, saving them time and money

(D) By guaranteeing profits on all investments made through the market

Ans :

(C) By bringing together potential buyers and sellers, saving them time and money

The accessibility function of financial markets stems from their role as a centralized meeting point. They bring together industries that need to raise funds and investors who want to invest their savings. This aggregation saves both parties significant time and money that would otherwise be spent searching for suitable counterparts, thus making the process more efficient.

function of the financial market will allow the investor to do this?
(A) Risk Sharing
(B) Capital Formation
(C) Price Determination
(D) Liquidity

Ans :

(D) Liquidity
The case illustrates a need for immediate cash by selling a financial asset. The liquidity function of financial markets provides investors with the opportunity to sell their financial instruments at the prevailing fair market value at any time. This ability to readily convert securities into cash is precisely what the investor in this scenario requires.

May/June 2023

63. A trader observes that a particular stock has high volatility. The trader believes they can profit from the large price swings, even though they are aware of the potential for significant losses. This trader's decision to enter the market is most influenced by which factor of price discovery?
(A) Volatility
(B) Available Information
(C) Supply and Demand
(D) Market Mechanisms

Ans :

(A) Volatility
The case highlights a trader who is specifically attracted to a market because of its large price swings, which is the definition of high volatility. The text states that some traders actively seek out volatile markets because they offer the potential for larger profits. This shows the trader's actions are directly driven by the volatility factor.

Oct/Nov 2007

64. After a major positive announcement about a company's new product, the demand for its stock increases sharply. However, the number of shares available for sale remains the same. According to the principles of price discovery, what is the most likely immediate effect on the stock's price?
(A) The price will decrease.
(B) The price will increase.
(C) The price will remain unchanged.
(D) The trading in the stock will be halted indefinitely.

Ans :

(B) The price will increase.
The case presents a classic supply and demand scenario. The principle of price discovery states that if demand is higher than supply, the price of an asset will increase, as buyers are willing to pay more due to its perceived scarcity or increased value. The sharp increase in demand with constant supply will push the equilibrium price upwards.

May/June 2010

65. Match the financial market segment in List-I with its corresponding instrument or characteristic in List-II.
List-I (Market Segment)
P. Money Market
Q. Debt Market
R. Derivatives Market
S. Capital Market
List-II (Instrument/Characteristic)
1. State Development Loans (SDLs)
2. Long-term equity
3. Futures and Options
4. Commercial Paper
(A) P-4, Q-1, R-3, S-2
(B) P-2, Q-3, R-1, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-1, Q-4, R-2, S-3

Ans :

(A) P-4, Q-1, R-3, S-2
Commercial Paper (4) is a short-term instrument, belonging to the Money Market (P). State Development Loans (1) are long-term government debt, belonging to the Debt Market (Q). Futures and Options (3) are standard examples of exchange-traded derivatives, belonging to the Derivatives Market (R). Long-term equity (2) is a key component of the Capital Market (S).

Oct/Nov 2025

66. Consider the following statements regarding the evolution of India's financial markets:
Statement 1: Before the 1990s, financial markets were characterized by high liquidity and low transaction costs.
Statement 2: Financial sector reforms in the early 1990s led to the introduction of free pricing of financial assets.
(A) Only Statement 1 is correct.
(B) Only Statement 2 is correct.

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price is said to be in equilibrium. At this point, the price is considered fair to both parties, and it is the level at which the market for that asset will naturally settle until there is a shift in either supply or demand.

May/June 2024

51. If a buyer is willing to pay a little more for an asset to secure exposure, anticipating a large rise in price, what might this scenario lead to?
(A) The asset being undersold
(B) The asset's price stabilizing permanently
(C) The asset being overbought
(D) The asset being delisted from the market

Ans :

(C) The asset being overbought
When a buyer's risk appetite leads them to pay a price higher than an asset's intrinsic value in anticipation of future gains, the asset becomes overbought. This means the price has been pushed to an unsustainable level due to excessive buying pressure. Such a scenario often precedes a price correction or a fall in the near future.

Oct/Nov 2011

52. What is the relationship between volatility and risk?
(A) They are the same concept.
(B) Volatility is the cause of risk, but risk is not related to volatility.
(C) They are completely unrelated concepts in finance.
(D) They are linked, but they are not the same.

Ans :

(D) They are linked, but they are not the same.
The text explicitly states that volatility is linked to risk, but they are not the same. Volatility refers to the magnitude of price fluctuations of an asset. While high volatility can lead to higher risk (potential for larger losses), it also offers the potential for larger profits. Risk is a broader concept encompassing the uncertainty of returns.

May/June 2006

53. How can the availability of information, such as the outcome of RBI meetings, impact asset prices?
(A) It has no impact as prices are only based on past performance.
(B) It only affects the prices of government bonds.
(C) It can increase demand or reduce supply, causing prices to change.
(D) It reduces market liquidity, thereby freezing prices.

Ans :

(C) It can increase demand or reduce supply, causing prices to change.
The amount of information available to market participants is a key factor in price discovery. Key announcements, like the outcome of an RBI policy meeting, provide new information that can alter buyers' and sellers' expectations and decisions. This can lead to a shift in demand or supply, directly causing asset prices to change in line with the new information.

Oct/Nov 2022

54. According to the price discovery example graph, what does the intersection of the demand and supply curves represent?
(A) The point of maximum profit for sellers
(B) The fair market price where buyers and sellers agree
(C) The point where the asset price is zero
(D) The quantity at which supply is infinite

Ans :

(B) The fair market price where buyers and sellers agree
In the provided graph, the downward-sloping demand curve and the upward-sloping supply curve intersect at a specific point. This intersection represents the equilibrium level. At this price and quantity, both buyers and sellers agree, and it is considered the fair market price for the asset until a shift in market conditions occurs.

May/June 2017

55. Read the following excerpt and answer the question below.
"A derivative is a financial instrument: whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable (sometimes called the 'underlying'); that requires no initial net investment or little initial net investment...; and that is settled at a future date."
Based on the excerpt, which statement is incorrect about a derivative?

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Oct/Nov 2014

46. In what way do financial markets help in 'Reduction in Transaction Costs and Provision of Information'?

(A) By charging high fees to provide exclusive, private information to select clients.
(B) By requiring investors to conduct their own expensive and independent due diligence.
(C) By actively limiting the amount of public information to prevent market volatility.
(D) By making all types of necessary information available, reducing individual search costs.

Ans :

(D) By making all types of necessary information available, reducing individual search costs.
Financial markets act as a hub for information, which is essential for buying and selling securities. They help consolidate and disseminate this information widely. By doing so, they save individual investors the time and money required to gather information on their own, thereby effectively reducing the transaction costs associated with making informed investment decisions.

May/June 2012

47. What is the role of financial markets in 'Capital Formation'?

(A) They provide the channel through which new savings flow into the economy.
(B) They directly create physical capital like machinery and buildings.
(C) They are responsible for printing money to increase the capital base.
(D) They only facilitate the transfer of existing capital, not the formation of new capital.

Ans :

(A) They provide the channel through which new savings flow into the economy.
Capital formation is the process of increasing the stock of real capital in an economy. Financial markets play a crucial role in this process by acting as a conduit. They mobilize savings from households and other surplus units and channel these funds towards productive investments by businesses and government, thereby aiding in the formation of new capital.

Oct/Nov 2005

48. The price discovery process is concerned with finding the equilibrium price that facilitates what?

(A) The highest possible profit for sellers
(B) The greatest liquidity for the asset
(C) The lowest possible cost for buyers
(D) The maximum volatility for traders

Ans :

(B) The greatest liquidity for the asset
Price discovery is the mechanism through which buyers and sellers interact to determine an asset's market price. The ultimate goal of this process is to find the equilibrium price—the price at which the quantity demanded equals the quantity supplied. This equilibrium point is where the asset experiences the greatest liquidity, as it facilitates the maximum number of transactions.

May/June 2008

49. Which of the following is NOT listed as a factor that determines the levels of price discovery?

(A) Supply and demand
(B) Historical performance of the asset
(C) Attitudes to risk
(D) Available information

Ans :

(B) Historical performance of the asset
The text explicitly lists several factors that influence price discovery: supply and demand, attitudes to risk, volatility, available information, and market mechanisms. While an asset's historical performance might influence a trader's decisions and thus indirectly affect supply or demand, it is not listed as a direct, primary factor determining the price discovery level itself.

Oct/Nov 2019

50. In a market where supply and demand are relatively equal, what is the state of the price called?

(A) In equilibrium
(B) In-demand
(C) Over-supplied
(D) In-elastic

Ans :

(A) In equilibrium
When the forces of supply and demand in a market are balanced, with an equal number of willing buyers and sellers at a certain price, the

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(A) From the investment entity to the investors who provide the funds.
(B) From investors to the entity undertaking the investment.
(C) From the government to both the investors and the investment entity.
(D) From the financial market itself to the investors.

Ans :

(A) From the investment entity to the investors who provide the funds.
The excerpt explicitly states that "the risk is transferred from the entity which undertakes the investments to those investors, who have provided funds." This means the company or project owner, which uses the capital, passes on the associated business and financial risks to the savers who have invested their money in that venture.

May/June 2019

59. Read the following excerpt and answer the question below.
"In the Chart 29.1 below, demand is decreasing as supply is increasing. Typically, this means an asset's price will fall. As the graph shows, the two lines representing demand and supply eventually cross, representing a level at which both buyers and sellers agree is the fair market price for an asset."
Based on the provided chart and its description, what does the intersection point signify?
(A) A market surplus where supply far exceeds demand.
(B) A market shortage where demand far exceeds supply.
(C) The price level at which trading is halted.
(D) An equilibrium point representing the fair market price.

Ans :

(D) An equilibrium point representing the fair market price.
The description of the chart explicitly states that the point where the demand and supply lines cross "represents a level at which both buyers and sellers agree is the fair market price for an asset." This is the definition of a market equilibrium, where the quantity demanded equals the quantity supplied, facilitating the highest level of trading.

Oct/Nov 2015

60. A company, 'InfraBuild Ltd.', needs to raise a large sum of money for a new 10-year highway project. The management is looking for funds that they do not have to repay for a long duration. Which segment of the financial market should 'InfraBuild Ltd.' primarily approach to meet this specific funding requirement?
(A) Money Market
(B) Capital Market
(C) Foreign Exchange Market
(D) Derivatives Market

Ans :

(B) Capital Market
The case describes a need for long-term financing (a 10-year project). The capital market is specifically defined as the market for long-term equity and debt. It provides long-term finance for governments and the corporate sector. The money market deals with short-term funds, making the capital market the appropriate choice for InfraBuild Ltd.'s project.

May/June 2005

61. An investor, Ms. Priya, wants to invest in a mutual fund but desires the flexibility to withdraw her money at any point in time without having to find a buyer on a stock exchange. Which type of mutual fund scheme would best suit her need for high liquidity and continuous access?
(A) A close-ended scheme
(B) An Infrastructure Debt Fund scheme
(C) An open-ended scheme
(D) A Real Estate Mutual Fund scheme

Ans :

(C) An open-ended scheme
Ms. Priya's primary requirement is liquidity and the ability to exit her investment at will. An open-ended scheme is defined as being available for subscription and repurchase on a continuous basis directly with the fund house. This perfectly aligns with her need, unlike a close-ended scheme which has a fixed tenure and limited exit options.

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Oct/Nov 2018

62. An investor holds shares of a publicly listed company. Due to an unexpected personal financial emergency, the investor needs to convert these shares into cash within a day. Which core

plans invest in bonds.
(B) Direct plans are for institutional investors, while regular plans are for retail investors.
(C) In a direct plan the investor invests directly, while a regular plan involves a broker.
(D) Direct plans have a fixed maturity, while regular plans are open-ended.

Ans :

(C) In a direct plan the investor invests directly, while a regular plan involves a broker.
Mutual funds offer two types of plans. In a direct plan, the investor buys units directly from the Asset Management Company (AMC) without any intermediary. In a regular plan, the investor invests through an intermediary like a broker or distributor. This distinction is important as regular plans have a higher expense ratio due to commission payments.

Oct/Nov 2006

38. Consider the following statements about mutual fund schemes:
Statement 1: An open-ended scheme is available for subscription and repurchase on a continuous basis and has no fixed maturity period.
Statement 2: A close-ended scheme is open for subscription only during a specified period at launch and has a stipulated maturity period.
(A) Only Statement 1 is correct.
(B) Only Statement 2 is correct.
(C) Both Statement 1 and Statement 2 are correct.
(D) Both Statement 1 and Statement 2 are incorrect.

Ans :

(C) Both Statement 1 and Statement 2 are correct.
Both statements accurately describe the fundamental difference between the two types of schemes. Open-ended schemes provide continuous liquidity as investors can enter and exit at any time at the prevailing NAV. Close-ended schemes raise a fixed amount of capital at launch and then trade on stock exchanges, having a defined maturity period like 3-5 years.

May/June 2025

39. According to SEBI Regulations, what is one of the two mandatory exit routes that must be provided to investors in a close-ended mutual fund scheme?
(A) A guaranteed buyback from the AMC at a predetermined, fixed price.
(B) An option for mandatory conversion of units into equity shares of the AMC.
(C) An automatic and compulsory loan facility provided against the fund units.
(D) Either a repurchase facility or listing on stock exchanges

Ans :

(D) Either a repurchase facility or listing on stock exchanges
To ensure investors in close-ended funds are not locked in for the entire tenure, SEBI Regulations mandate an exit mechanism. The fund must provide at least one of two options: either listing the units on a stock exchange where they can be traded, or offering a periodic repurchase facility where the fund buys back units at NAV-related prices.

Oct/Nov 2013

40. Besides traditional equity and debt funds, what new types of schemes have SEBI recently permitted mutual funds to launch?
(A) Real Estate Mutual Fund Schemes and Infrastructure Debt Fund Schemes
(B) Cryptocurrency Fund Schemes and Art Fund Schemes
(C) Venture Capital Fund Schemes and Private Equity Fund Schemes
(D) Agricultural Commodity Fund Schemes and Forex Trading Schemes

Ans :

(A) Real Estate Mutual Fund Schemes and Infrastructure Debt Fund Schemes
To broaden the investment landscape and channel funds into specific sectors, SEBI has expanded the scope of mutual fund products. The text explicitly mentions that of late, SEBI has permitted the launch of Real Estate Mutual Fund Schemes and Infrastructure Debt Fund schemes, allowing investors to participate in these asset classes through the mutual fund route.

May/June 2009

41. Which of the following is NOT listed as a primary function of financial markets?
(A) Funds Mobilisation
(B) Risk Sharing
(C) Government Regulation
(D) Capital Formation

Ans :

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(C) Both Statement 1 and Statement 2 are correct.
(D) Both Statement 1 and Statement 2 are incorrect.

Ans :

(B) Only Statement 2 is correct.
Statement 1 is incorrect; pre-1990s markets were characterized by low liquidity and high transaction costs. Statement 2 is correct; a major outcome of the reforms was the introduction of free pricing of financial assets in most segments, moving away from the earlier controlled-price regime. Therefore, only the second statement accurately reflects the content.

May/June 2014

67. Which of the following statements about the Indian Insurance Market is incorrect?
(A) The sector was opened to private participation following the recommendations of the R.N. Malhotra committee.
(B) The IRDA Act was enacted in the year 1999.
(C) Before liberalisation, only the Life Insurance Corporation (LIC) was allowed to operate in India.
(D) The opening of the sector was aimed at meeting the demands of a changing industrial sector.

Ans :

(C) Before liberalisation, only the Life Insurance Corporation (LIC) was allowed to operate in India.
This statement is incorrect because it is incomplete. While LIC undertook life insurance business, the non-life business was undertaken by the General Insurance Corporation (GIC) and its four subsidiaries. Therefore, it is inaccurate to say that only LIC was allowed to operate in the entire insurance market before the reforms of the 1990s.

Oct/Nov 2016

68. Assertion (A): The capital market facilitates the dispersion of business ownership.
Reason (R): The capital market is primarily a market for short-term debt instruments like commercial paper.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.
Assertion (A) is true; by allowing companies to issue shares (equity) to a wide range of investors, the capital market helps in dispersing ownership.
Reason (R) is false; the capital market is a market for long-term equity and debt, not short-term instruments. Commercial paper is a money market instrument, not a capital market one.

May/June 2020

69. Consider the following functions of financial markets:
1. Liquidity
2. Price Determination
3. Risk Sharing
4. Capital Formation

Which of the above functions help an investor to convert their securities into cash and aid the economy in creating new assets?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 4 only
(D) 3 and 4 only

Ans :

(C) 1 and 4 only
The 'Liquidity' function (1) specifically provides the opportunity for investors to sell their securities and convert them into cash. The 'Capital Formation' function (4) describes the process where financial markets channel new savings into the economy, which aids in the creation of new capital assets. The other functions have different primary purposes.

Oct/Nov 2012

70. Which of the following pairs is incorrectly matched?
(A) G-Sec : Debt Market
(B) Corporate Bonds : Money Market
(C) Call Money : Money Market
(D) Forward Contracts : Over-the-counter Derivatives

Ans :

(B) Corporate Bonds : Money Market
Corporate Bonds are typically long-term debt instruments issued by companies for periods of 5 or 10 years to raise funds. This characteristic places them firmly in the debt market or capital

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(A) Its value is contractually dependent on an external variable, known as the underlying.
(B) Its final settlement is contractually obligated to occur at a specified future date.
(C) A variable like an interest rate or commodity price can serve as its specified underlying.
(D) It requires a substantial upfront capital investment equal to the asset's value.

Ans :

(D) It requires a substantial upfront capital investment equal to the asset's value.
The excerpt explicitly states that a derivative "requires no initial net investment or little initial net investment". This leverage is a key characteristic. Therefore, the statement suggesting that it requires a substantial upfront capital investment is directly contradicted by the provided definition and is incorrect. The other options are all consistent with the text.

Oct/Nov 2009

56. Read the following excerpt and answer the question below.
"In the wake of financial liberalisation during the early 1990s, the Committee on Reform of the Insurance Sector (Chairman: Shri R. N. Malhotra) recommended in 1994, the opening up of the insurance sector to private participation and the institution of a separate regulatory and development authority. Accordingly, the Insurance Regulatory and Development Authority (IRDA) Act was enacted in the year 1999..."
What was a direct legislative outcome of the Malhotra Committee's 1994 recommendations?
(A) The enactment of the IRDA Act in 1999.
(B) The nationalisation of all private insurance companies.
(C) The formation of the General Insurance Corporation (GIC).
(D) The merger of LIC and GIC into a single entity.

Ans :

(A) The enactment of the IRDA Act in 1999.
The provided text clearly establishes a cause-and-effect relationship. The Malhotra Committee made its recommendations in 1994, which included setting up a separate regulator. The text then states, "Accordingly, the Insurance Regulatory and Development Authority (IRDA) Act was enacted in the year 1999." This shows the Act was a direct legislative result of the committee's work.

May/June 2013

57. Read the following excerpt and answer the question below.
"An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. On the other hand, a close-ended fund or scheme has a stipulated maturity period, e.g., 3-5 years. The fund is open for subscription only during a specified period at the time of launch..."
Based on the excerpt, if an investor prioritizes the ability to enter or exit an investment at any given time, which type of fund is more suitable?
(A) A close-ended fund, because its stipulated maturity provides certainty.
(B) Both are equally suitable as they can be traded on stock exchanges.
(C) An open-ended fund, because it is available for subscription and repurchase continuously.
(D) A close-ended fund, because it is only open for a specific period.

Ans :

(C) An open-ended fund, because it is available for subscription and repurchase continuously.
The key attribute for the investor is continuous access for entry and exit. The excerpt defines an open-ended fund as one that is "available for subscription and repurchase on a continuous basis." This directly matches the investor's priority for high liquidity and flexibility, making it the more suitable choice compared to a time-bound close-ended fund.

Oct/Nov 2020

58. Read the following excerpt and answer the question below.
"Financial markets perform the function of the risk-sharing, as the entities which are undertaking the investments are different from the persons who have invested their savings in that entity. With the help of financial markets, the risk is transferred from the entity which undertakes the investments to those investors, who have provided funds for making those investments."
According to the excerpt, how is risk transferred in a financial market?

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CHAPTER 30
Money Markets

May/June 2010

1. What is the primary objective of the money market as a component of the financial system?
(A) To provide long-term capital for industrial expansion at a fixed interest rate.
(B) To provide borrowers with short-term funds at a reasonable price and offer lenders liquidity.
(C) To facilitate trading of equity shares and derivatives for speculative gains.
(D) To offer a platform for foreign exchange transactions between central banks.

Ans :

(B) To provide borrowers with short-term funds at a reasonable price and offer lenders liquidity.
The money market's core purpose is to address short-term funding needs. It serves borrowers like institutions and governments by providing access to short-term funds at competitive rates. Simultaneously, it offers lenders, who have surplus funds, an advantage of high liquidity, as the instruments traded have short maturity periods, ensuring quick conversion to cash.

Oct/Nov 2024

2. Which of the following is NOT a broad function of the money market?
(A) Enabling long-term capital formation for infrastructure projects.
(B) Providing an equilibrating mechanism for the demand and supply of short-term funds.
(C) Providing an avenue for central bank intervention to influence liquidity.
(D) Enabling borrowers and lenders to fulfill short-term requirements at an efficient price.

Ans :

(A) Enabling long-term capital formation for infrastructure projects.
The money market is exclusively a market for short-term funds, with maturities typically ranging from overnight to one year. Its functions include balancing short-term fund supply and demand, facilitating efficient transactions, and acting as a conduit for monetary policy. Long-term capital formation is the primary function of the capital market, not the money market.

May/June 2005

3. What is the main objective of the central bank's monetary management in the context of the money market?
(A) To maximize the profits of commercial banks participating in the market.
(B) To ensure all money market transactions are fully collateralised.
(C) To align money market interest rates with the key policy rate.
(D) To directly finance the government's fiscal deficit through market operations.

Ans :

(C) To align money market interest rates with the key policy rate.
The central bank uses the money market as a crucial tool for monetary policy transmission. By intervening in this market, it influences the quantum and cost of liquidity in the financial system. The primary goal of these operations is to guide the short-term interest rates in the money market to move in tandem with its key policy rate.

Oct/Nov 2015

4. In the call/notice/term money market, what is the tenure for funds borrowed or lent for a single day?
(A) Term Money
(B) Notice Money
(C) Overnight Repo
(D) Call Money

Ans :

(D) Call Money
The call/notice/term money market deals with very short-term funds. Specifically, transactions for a period of a single day (overnight) are referred to as 'call money'. This instrument is used by banks and primary dealers to manage

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to be ₹1,000 crore or more in a calendar year must obtain credit ratings from at least two SEBI-registered CRAs. For prudence, the issuer is required to adopt the lower of the two ratings obtained.

May/June 2013

33. What is the permissible maturity range for a Commercial Paper?
(A) From 1 day to 90 days.
(B) From 7 days to 1 year.
(C) From 15 days to 182 days.
(D) From 30 days to 364 days.

Ans :

(B) From 7 days to 1 year.
Commercial Papers are designed to meet short-term funding needs. Accordingly, they can be issued for a minimum maturity of 7 days and a maximum maturity of up to one year from the date of issue. A crucial condition is that the maturity date of the CP cannot extend beyond the validity date of the credit rating.

Oct/Nov 2021

34. For an All-India Financial Institution (FI) issuing Commercial Papers, what is the overall umbrella limit fixed by the RBI?
(A) Total borrowings via CP and other instruments must not exceed 100% of its Net Owned Funds.
(B) The total issuance of Commercial Papers alone should not exceed 200% of its Net Owned Funds.
(C) The total issuance of all short-term instruments should not exceed 50% of its audited Tier 1 capital.
(D) The total issuance limit is determined solely by the credit rating assigned by the designated agency.

Ans :

(A) Total borrowings via CP and other instruments must not exceed 100% of its Net Owned Funds.
The RBI imposes an overall umbrella limit on borrowings by Financial Institutions. An FI can issue CPs, but the total quantum of CPs, along with other instruments like term money borrowings, term deposits, CDs, and inter-corporate deposits, should not collectively exceed 100% of the FI's Net Owned Funds as per its latest audited balance sheet.

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May/June 2024

35. A highly-rated NBFC issued a Commercial Paper on June 1st with a 90-day maturity. Due to an unexpected inflow of funds, the NBFC wishes to buy back this CP from the market. Considering the regulatory guidelines, what is the earliest date the NBFC can make a buyback offer for this Commercial Paper?
(A) June 8th
(B) June 16th
(C) July 1st
(D) The buyback is not permitted.

Ans :

(C) July 1st
The regulations for Commercial Papers specify a cooling-off period before an issuer can initiate a buyback. A buyback offer can be made, at the prevailing market price, but not before 30 days have passed from the date of issue. Since the CP was issued on June 1st, 30 days would have elapsed by June 30th, making July 1st the earliest possible date.

Oct/Nov 2008

36. Which of the following accurately describes a repo transaction?
(A) An uncollateralised lending of funds between eligible banks for an overnight period.
(B) Buying a security with a non-binding option to sell it back at the future prevailing market price.
(C) A simultaneous exchange of two different government securities for liquidity management purposes.
(D) Selling a security with a binding agreement to repurchase it at a predetermined future date and price.

Ans :

(D) Selling a security with a binding agreement to repurchase it at a predetermined future date and price.
A repo, or repurchase agreement, is a collateralised borrowing and lending transaction. It consists of two legs. In the first leg, the borrower sells a security to the lender to receive funds. This sale is coupled with a binding agreement to repurchase the same security at a future date at a predetermined, slightly higher price.

Ans :

(C) 125% of its capital funds

According to the prudential borrowing limits specified in the table, a Scheduled Commercial Bank has two-tiered limits for Call and Notice Money. The limit for a daily average basis over a reporting fortnight is 100% of capital funds, but the absolute ceiling for borrowing on any specific, single day is higher, at 125% of its capital funds.

Oct/Nov 2025

10. According to the provided table on prudential borrowing limits, what is the limit for a Co-operative Bank's borrowing in the Call, Notice, and Term Money markets?

(A) 2.0% of its aggregate deposits as at the end of the previous financial year.
(B) 100% of its capital funds on a daily average basis.
(C) 225% of its Net Owned Fund (NOF) as at the end of the previous financial year.
(D) An internal board-approved limit for inter-bank liabilities.

Ans :

(A) 2.0% of its aggregate deposits as at the end of the previous financial year.

The prudential borrowing norms for Co-operative Banks in the Call, Notice, and Term Money markets are distinct from those for commercial banks. As per the regulations, their borrowing is capped at 2.0% of their aggregate deposits, calculated as of the end of the preceding financial year, providing a clear and stable benchmark for their market activity.

May/June 2012

11. What is the prudential borrowing limit for Primary Dealers in the Term Money market?

(A) 125% of capital funds on any given day.
(B) 2.0% of aggregate deposits as at the end of the previous financial year.
(C) An internal board-approved limit within inter-bank liability limits.
(D) 225% of Net Owned Fund (NOF) as at the end of the previous financial year.

Ans :

(D) 225% of Net Owned Fund (NOF) as at the end of the previous financial year.

For Primary Dealers, the prudential borrowing limit in the Term Money market is set at 225% of their Net Owned Fund (NOF) as recorded at the close of the previous financial year. This same limit of 225% of NOF also applies to their Call and Notice money borrowings, though the latter has an additional daily average constraint.

Oct/Nov 2014

12. How are trades in the call/notice money market primarily conducted and settled?

(A) Conducted via telephone, settled via physical cheques.
(B) Conducted on the NDS-Call system, settled through the RTGS system.
(C) Conducted on the NSE trading platform, settled by the clearing corporation.
(D) Conducted through brokers, settled through the NEFT system.

Ans :

(B) Conducted on the NDS-Call system, settled through the RTGS system.

The infrastructure for the call/notice money market is highly automated. Trades are negotiated on the Negotiated Dealing System (NDS-Call), which is an electronic, screen-based system established by the RBI. The subsequent settlement of these deals, including the repayment of funds, occurs through electronic fund transfers using the Real Time Gross Settlement (RTGS) system, also operated by the RBI.

May/June 2019

13. What is the primary purpose of issuing Treasury Bills (T-Bills) by the Government of India?

(A) To finance long-term infrastructure projects.
(B) To manage the country's foreign exchange reserves.
(C) To finance its short-term debt obligations.
(D) To provide capital to public sector undertakings.

Ans :

(C) To finance its short-term debt obligations.

Treasury Bills, or T-Bills, are quintessential money market instruments used by the central government to manage its short-term liquidity needs. They are issued specifically for the purpose of financing the short-term debt obligations of the Government of India. Their maturities of less than one year make them unsuitable for financing long-term projects or capital expenditure.

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their day-to-day liquidity mismatches, and the lending is typically on an uncollateralised basis between eligible participants.

May/June 2016

5. A bank borrows funds from another institution for a period of 10 days on an uncollateralised basis. What is this type of transaction called?
(A) Call Money
(B) Term Money
(C) Notice Money
(D) Commercial Paper

Ans :

(C) Notice Money
In the inter-bank market, borrowing or lending of funds for a period between 2 days and 14 days is known as 'notice money'. Since the transaction in the question is for 10 days, it falls squarely within this definition. Call money is for one day, and term money is for periods exceeding 14 days up to one year.

Oct/Nov 2009

6. Which of the following statements correctly defines 'Term Money'?
(A) Borrowing/lending of funds for a period of exactly 14 days.
(B) Borrowing/lending of funds for a period exceeding 14 days and up to one year.
(C) Borrowing/lending of funds for a period of 2 days to 14 days.
(D) Borrowing/lending of funds for a period of one day only.

Ans :

(B) Borrowing/lending of funds for a period exceeding 14 days and up to one year.
Term money refers to transactions in the uncollateralised money market that have a maturity period longer than notice money. The specific tenor for term money is for any period exceeding 14 days but not more than one year. This instrument helps participants manage their short-to-medium term liquidity requirements beyond the very short-term call/notice market.

May/June 2023

7. Which category of participants in the call/notice money market is permitted to operate only as lenders?
(A) Scheduled Commercial Banks
(B) Primary Dealers
(C) Development Finance Institutions
(D) Non-bank institutions with specific permission from RBI

Ans :

(D) Non-bank institutions with specific permission from RBI
The Reserve Bank of India supervises the call/notice money market and sets guidelines for participation. While Scheduled Commercial Banks and Primary Dealers are permitted to act as both borrowers and lenders, certain non-bank institutions like select mutual funds and insurance companies, which receive specific RBI permission, are allowed to participate only as lenders of funds.

Oct/Nov 2018

8. Who determines the prudential limits for outstanding lending transactions in the Call, Notice, and Term Money Markets for an eligible participant?
(A) The participant's own Board, within the RBI's regulatory framework.
(B) The Reserve Bank of India's Department of Regulation exclusively.
(C) The Fixed Income Money Market and Derivatives Association of India (FIMMDA).
(D) The Indian Banks' Association (IBA) in consultation with the Ministry of Finance.

Ans :

(A) The participant's own Board, within the RBI's regulatory framework.
While the RBI provides the overarching regulatory framework and exposure norms, the specific prudential limits for a participant's lending activities in the call, notice, and term money markets are to be decided by the participant's own Board of Directors. This internal governance mechanism ensures that the limits are aligned with the institution's risk appetite.

May/June 2007

9. Based on the provided table, what is the maximum permissible borrowing for a Scheduled Commercial Bank in the Call and Notice Money market on any single given day?
(A) 100% of its capital funds
(B) 2.0% of its aggregate deposits
(C) 125% of its capital funds
(D) 100% of its Net Owned Fund (NOF)

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May/June 2018

19. On which electronic platform are bids for Treasury Bill auctions primarily submitted by participants?
(A) NDS-Call
(B) INFINET
(C) E-Kuber
(D) Retail Direct Portal

Ans :

(C) E-Kuber
The Reserve Bank of India's Core Banking Solution (CBS) platform, known as E-Kuber, is the designated electronic system for participants to submit their bids for Treasury Bill auctions. While the Retail Direct portal is for individual investors, the primary institutional bidding happens on E-Kuber. Physical bids are accepted only in the rare event of a system failure.

Oct/Nov 2016

20. Based on the provided auction details, what is the settlement basis for Treasury Bills, and what does it imply for the payment date of the auction held on July 27, 2022?
(A) T+2 basis, implying settlement on July 29, 2022.
(B) T+0 basis, implying settlement on July 27, 2022.
(C) T+3 basis, implying settlement on July 30, 2022.
(D) T+1 basis, implying settlement on July 28, 2022.

Ans :

(D) T+1 basis, implying settlement on July 28, 2022.
The table's footnote explicitly states that settlement for T-Bills takes place on a T+1 basis, where 'T' is the auction date. For the auction conducted on Wednesday, July 27, 2022, T+1 corresponds to the next working day, which is Thursday, July 28, 2022. This is confirmed by the 'Settlement Date' column in the provided table.

May/June 2014

21. What is the minimum amount for which a Treasury Bill can be issued to an investor?
(A) ₹5,000 and in multiples of ₹5,000
(B) ₹25,000 and in multiples of ₹25,000
(C) ₹10,000 and in multiples of ₹10,000
(D) ₹1,00,000 and in multiples of ₹1,00,000

Ans :

(C) ₹10,000 and in multiples of ₹10,000
Treasury Bills are made accessible to a broad range of investors, including retail participants. To facilitate this, the minimum investment amount is set at a relatively low level. An investor can apply for T-Bills for a minimum face value of ₹10,000 (Rupees Ten Thousand) and can request higher amounts in multiples of ₹10,000 thereafter.

Oct/Nov 2007

22. How is the return on a Treasury Bill instrument realized by an investor?
(A) Through periodic coupon payments during its tenor.
(B) As the difference between the discounted issue price and the par value at redemption.
(C) Through a floating interest rate pegged to the repo rate.
(D) As a loyalty bonus paid by the RBI upon maturity.

Ans :

(B) As the difference between the discounted issue price and the par value at redemption.
Treasury Bills are zero-coupon instruments. They do not pay any periodic interest. They are issued at a price discounted to their par value (which is ₹100). The instrument is then redeemed at its full par value upon maturity. The investor's return is the capital gain, which is the difference between the redemption value and the discounted issue price.

May/June 2025

23. Which of the following institutions are eligible to issue Certificates of Deposit (CDs) in India?
(A) Only Scheduled Commercial Banks, specifically excluding Regional Rural Banks and Small Finance Banks.
(B) Only select All-India Financial Institutions that have been specifically permitted by SEBI for this purpose.
(C) All registered Non-Banking Financial Companies (NBFCs) and all Housing Finance Companies (HFCs).
(D) Scheduled Commercial Banks (including RRBs and SFBs) and certain All-India Financial Institutions permitted by the RBI.

Ans :

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(D) Scheduled Commercial Banks (including RRBs and SFBs) and certain All-India Financial Institutions permitted by the RBI.

The issuance of Certificates of Deposit is restricted to specific banking and financial institutions. The eligible issuers include all Scheduled Commercial Banks, which explicitly covers Regional Rural Banks (RRBs) and Small Finance Banks (SFBs). Additionally, select All-India Financial Institutions (AIFIs) that have been specifically permitted by the RBI can also issue CDs to raise short-term resources.

Oct/Nov 2019

24. What is the permissible tenor range for the issuance of a Certificate of Deposit (CD) by a bank?

(A) From 7 days to 1 year.
(B) From 1 day to 90 days.
(C) From 15 days to 182 days.
(D) From 3 months to 3 years.

Ans :

(A) From 7 days to 1 year.

Certificates of Deposit are short-term money market instruments. The regulatory guidelines specify a clear tenor range for their issuance. A bank can issue a CD for a minimum period of 7 days and a maximum period of up to 1 year from the date of issue, providing flexibility for managing short-term liquidity.

May/June 2009

25. Which of the following statements regarding Certificates of Deposit (CDs) is incorrect?

(A) CDs are negotiable instruments issued in dematerialised form.
(B) The minimum amount for a single CD is ₹5 lakh.
(C) Banks are freely allowed to grant loans against the collateral of CDs.
(D) CDs are issued at a discount and redeemed at par value.

Ans :

(C) Banks are freely allowed to grant loans against the collateral of CDs.

While CDs are negotiable instruments, there is a specific restriction on their use as collateral for loans. Banks are not allowed to grant loans against the security of CDs. An exception can only be made if the Reserve Bank of India provides a specific permission to do so, making this a highly restricted activity.

Oct/Nov 2011

26. A corporate treasurer wants to invest surplus funds of ₹50 lakh for a very short period. They are considering purchasing a Certificate of Deposit (CD). The bank offers a CD, but the treasurer is concerned about the possibility of needing the funds back in 5 days for an unexpected payment. Based on the scenario, what is the earliest the corporation can liquidate the CD through a buyback arrangement with the bank?

(A) Only after 7 days from the date of issue.
(B) After 3 days from the date of issue.
(C) After 5 days from the date of issue.
(D) Immediately on the next day of issue.

Ans :

(A) Only after 7 days from the date of issue.

The RBI has stipulated a minimum lock-in period for the buyback of Certificates of Deposit. A bank can offer to buy back a CD it has issued, but this can only be done 7 days after the date of issue. Therefore, the corporation cannot liquidate the CD in 5 days and must wait for the 7-day period to elapse.

May/June 2010

27. When were Commercial Papers (CPs) introduced in the Indian financial market by the RBI?

(A) 1980
(B) 2000
(C) 2010
(D) 1990

Ans :

(D) 1990

The Reserve Bank of India introduced Commercial Papers in the year 1990. The objective was to allow highly-rated corporate borrowers to diversify their sources of short-term financing beyond traditional bank credit. This also provided an additional high-quality, short-term instrument for investors, thereby deepening the Indian money market and promoting market-based financing mechanisms.

Oct/Nov 2024

28. What is the fundamental nature of a Commercial Paper (CP) as a money market instrument?

(A) A secured instrument issued in the form of a debenture.

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(B) An unsecured instrument issued in the form of a promissory note.
(C) A collateralised instrument issued against government securities.
(D) A government-guaranteed instrument issued as a bearer bond.

Ans :

(B) An unsecured instrument issued in the form of a promissory note.
A Commercial Paper is fundamentally an unsecured money market instrument. It represents a promise by the issuer to pay the face value to the holder on a specified date. This promise takes the legal form of a promissory note. Its unsecured nature means that the creditworthiness and reputation of the issuer are of paramount importance to investors.

May/June 2017

29. Which condition must a company, NBFC, or AIFI satisfy to be eligible to issue Commercial Papers?
(A) It must have a net worth of at least ₹500 crore.
(B) It must be listed on a recognized stock exchange for at least three years.
(C) Any fund-based facility availed from banks must be classified as a standard asset.
(D) It must obtain a minimum credit rating of 'A1' from a Credit Rating Agency.

Ans :

(C) Any fund-based facility availed from banks must be classified as a standard asset.
A key eligibility criterion for issuing Commercial Papers is the issuer's credit discipline and financial health, as reflected in its relationship with the banking system. At the time of issuing the CP, any existing fund-based credit facility availed by the issuer from banks or financial institutions must be classified as a 'standard asset' by all lenders.

Oct/Nov 2005

30. What is the minimum net worth required for entities like co-operative societies, trusts, or LLPs to become eligible to issue Commercial Papers?
(A) ₹50 crore
(B) ₹250 crore
(C) ₹500 crore
(D) ₹100 crore

Ans :

(D) ₹100 crore
The eligibility criteria for issuing Commercial Papers extend beyond typical corporates to other entities. For co-operative societies, unions, government entities, trusts, and limited liability partnerships (LLPs) with a presence in India, a minimum tangible net worth of ₹100 crore or higher, as per the latest audited balance sheet, is a mandatory requirement to tap this market.

May/June 2020

31. What is the minimum credit rating required for an entity to issue a Commercial Paper?
(A) A3
(B) A1
(C) A2
(D) A4

Ans :

(A) A3
To ensure a minimum quality standard for instruments in the CP market and to protect investors, the RBI mandates a minimum credit rating. As per the guidelines prescribed by SEBI for rating symbols, an issuer must obtain a minimum credit rating of 'A3' from a SEBI-registered Credit Rating Agency for its proposed CP issuance.

Oct/Nov 2015

32. An eligible issuer plans a total CP issuance of ₹1,200 crore during a calendar year. What is the credit rating requirement for this issuer?
(A) It must obtain a credit rating from at least one CRA registered with the Securities and Exchange Board of India.
(B) It must obtain credit ratings from at least two CRAs and is required to adopt the lower of the two ratings for the issue.
(C) It must obtain credit ratings from at least two CRAs and is permitted to adopt the higher of the two ratings for the issue.
(D) It must obtain a rating from a recognized international Credit Rating Agency, such as S&P or Moody's.

Ans :

(B) It must obtain credit ratings from at least two CRAs and is required to adopt the lower of the two ratings for the issue.
For large issuers, the regulatory framework requires a more robust credit assessment. An eligible issuer whose total CP issuance is planned

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Oct/Nov 2006

14. Which of the following is NOT one of the standard tenors for which Treasury Bills are issued in India?
(A) 91-day
(B) 182-day
(C) 364-day
(D) 270-day

Ans :

(D) 270-day
The Government of India, through the Reserve Bank of India, issues Treasury Bills in three standard tenors to meet its short-term financing requirements. These are 91-day, 182-day, and 364-day T-Bills. A 270-day T-Bill is not a standard issuance tenor in the Indian money market.

May/June 2021

15. Consider the following statements regarding investment in Treasury Bills.
1. Only persons resident in India are eligible to invest.
2. Non-Resident Indians (NRIs) are eligible to invest subject to FEMA provisions.
3. State Governments are eligible to invest.

Which of the above statements is/are correct?
(A) 1 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(B) 2 and 3 only
Investment in T-Bills is open to a wide range of investors. This includes any person resident in India (like firms, companies, and retail investors) and State Governments. Additionally, Non-Resident Indians (NRIs) and other overseas entities are also eligible to invest, but their investment is subject to the provisions of the Foreign Exchange Management Act (FEMA), 1999.

Oct/Nov 2010

16. Under the non-competitive bidding facility for Treasury Bills, which foreign central bank is specifically mentioned as being eligible to participate only in 91-Day T-Bills?
(A) Royal Monetary Authority of Bhutan
(B) Vnesheconom Bank
(C) Nepal Rashtra Bank
(D) Central Bank of Sri Lanka

Ans :

(B) Vnesheconom Bank
The non-competitive bidding scheme allows certain entities to participate in T-Bill auctions without quoting a price. Among the designated Foreign Central Banks eligible for this facility, Nepal Rashtra Bank and the Royal Monetary Authority of Bhutan can participate across tenors. However, Vnesheconom Bank's participation is specifically restricted to only 91-Day T-Bills under this scheme.

May/June 2005

17. What is the maximum allocation for retail investors participating on a non-competitive basis in a Treasury Bill auction?
(A) 10% of the notified amount.
(B) 5% of the notified amount.
(C) A fixed amount of ₹2 crore per investor.
(D) There is no specified limit for retail investors.

Ans :

(B) 5% of the notified amount.
Retail investors are encouraged to participate in government securities markets through the non-competitive bidding route. However, to ensure balanced allocation, their participation is subject to a cap. The total allocation for all retail investors participating on a non-competitive basis in a T-Bill auction is restricted to a maximum of 5% of the total notified amount.

Oct/Nov 2022

18. Treasury Bill auctions are conducted on a price basis. Which methods can be used for these auctions?
(A) Uniform price or multiple price method
(B) English auction or Dutch auction method
(C) First-price sealed-bid or second-price sealed-bid method
(D) Open outcry or electronic bidding method

Ans :

(A) Uniform price or multiple price method
The auction for Treasury Bills is conducted on a price basis, where participants bid prices for the security. The allotment can be done using one of two methods: the uniform price method, where all successful bidders are allotted securities at the same cut-off price, or the multiple price method, where bidders are allotted securities at their respective bid prices.

NODIA

May/June 2006

37. Which of the following securities is NOT listed as an eligible collateral for repo transactions in India?

(A) Government securities issued by the Central Government.
(B) Commercial Papers (CPs) and Certificates of Deposits (CDs).
(C) Equity shares of listed public sector undertakings.
(D) Listed corporate bonds and debentures.

Ans :

(C) Equity shares of listed public sector undertakings.
Repo transactions require high-quality, liquid collateral. Eligible securities include government securities, listed corporate bonds and debentures, CPs, CDs, and Units of Debt Exchange Traded Funds (ETFs). Equity shares, being more volatile and representing ownership rather than debt, are not permitted as eligible collateral for standard repo transactions under the RBI guidelines mentioned.

Oct/Nov 2017

38. From the perspective of the counterparty that is lending funds, what does a repo transaction become?

(A) A collateralised borrowing
(B) A reverse repo transaction
(C) A forward transaction
(D) An unsecured lending

Ans :

(B) A reverse repo transaction
A single repo agreement has two sides. For the entity selling the security to borrow funds, it is a repo transaction. For the counterparty that is buying the security to lend its surplus funds, the same transaction is termed a reverse repo. It involves buying securities in the first leg and selling them back in the second.

May/June 2008

39. What is the primary role of a Tri-Party Agent in a tri-party repo transaction?

(A) To guarantee the full repayment of funds in case of a default by the borrowing counterparty.
(B) To actively determine the repo interest rate for the transaction based on daily market conditions.
(C) To act as a principal, borrowing funds from the lender and then separately lending them to the final borrower.
(D) To act as an intermediary for services like collateral selection, valuation, settlement, and custody.

Ans :

(D) To act as an intermediary for services like collateral selection, valuation, settlement, and custody.
The defining feature of a tri-party repo is the involvement of a third entity, the Tri-Party Agent. This agent does not take on the credit risk of the transaction but acts as an intermediary to facilitate post-trade processing. Its key functions include collateral selection, payment and settlement, and managing the collateral throughout the transaction's life.

Oct/Nov 2013

40. When was the tri-party repo system introduced by the RBI in India?

(A) August 2017
(B) August 2015
(C) August 2019
(D) August 2021

Ans :

(A) August 2017
To enhance liquidity in the corporate bond market and streamline the operational aspects of repo transactions, the Reserve Bank of India introduced the framework for tri-party repo in India. This system officially became operational in August 2017, with entities like CCIL and NSE being approved to act as tri-party agents for these transactions.

May/June 2015

41. Identify the incorrect statement regarding the tri-party repo mechanism.

(A) The agent handles post-trade processing like collateral selection and settlement.
(B) In case of default, the impact falls entirely on the defaulting party.
(C) The tri-party agent changes the fundamental relationship between the borrower and the lender.
(D) CCIL and NSE are two approved tri-party agents.

Ans :

NODIA

(C) The tri-party agent changes the fundamental relationship between the borrower and the lender.
The tri-party agent's role is purely operational and administrative. It facilitates the transaction but does not alter the direct relationship between the borrower and the lender, nor does it participate in the risk of the transaction. The credit risk remains between the two principal counterparties, and the impact of any default falls on the defaulting party.

Oct/Nov 2012

42. What is the minimum paid-up equity share capital required for an entity to be eligible to act as a tri-party agent?
(A) ₹25 crores
(B) ₹10 crores
(C) ₹50 crores
(D) ₹100 crores

Ans :

(A) ₹25 crores
The RBI has set specific eligibility criteria for entities wishing to act as tri-party agents to ensure they are financially sound and capable. One of the key financial requirements is that the applicant entity must have a minimum paid-up equity share capital of ₹25 crores. This ensures the agent has sufficient financial standing.

May/June 2011

43. What is a key advantage of employing tri-party agency services in the repo market?
(A) It guarantees a significantly higher rate of return for the fund-lending party.
(B) It allows for the flexible use of otherwise ineligible or lower-rated securities as collateral.
(C) It completely eliminates the counterparty credit risk inherent between the borrower and lender.
(D) It alleviates the operational burden of collateral management, valuation, and custody for the parties.

Ans :

(D) It alleviates the operational burden of collateral management, valuation, and custody for the parties.
A major operational challenge in bilateral repo transactions is the management of collateral, including selection, valuation, and custody. By employing a tri-party agent, the borrower and lender delegate these complex tasks. This alleviates the administrative burden on both parties, making the repo transaction process more efficient and scalable for participants.

Oct/Nov 2020

44. The Bills Rediscounting Scheme (BRDS) involves the rediscounting of what type of bills?
(A) Treasury Bills already held by banks.
(B) Trade bills that have already been discounted by a bank.
(C) Accommodation bills created by sister concerns.
(D) Government bills of exchange issued for public works.

Ans :

(B) Trade bills that have already been discounted by a bank.
The BRDS is a mechanism for banks to generate liquidity from their existing loan portfolio. It specifically involves the rediscounting of genuine trade bills that have arisen from the supply of goods or services. These are bills that the bank has already purchased or discounted from its customers in its normal course of business.

May/June 2022

45. What is the instrument issued by a borrowing bank under the Bills Rediscounting Scheme (BRDS)?
(A) A Certificate of Deposit (CD)
(B) A Commercial Paper (CP)
(C) A Derivative Usance Promissory Note (DUPN)
(D) A Rediscounted Treasury Bill (RTB)

Ans :

(C) A Derivative Usance Promissory Note (DUPN)
Under the BRDS, the actual underlying trade bills are not physically delivered to the lending institution. Instead, the borrowing bank issues a Derivative Usance Promissory Note (DUPN). This DUPN is a promissory note that derives its value from the pool of unencumbered, genuine trade bills held by the borrowing bank, serving as security for the funds raised.

Oct/Nov 2023

46. What is the specified tenor range for a transaction under the Bills Rediscounting Scheme (BRDS)?

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(A) 7 days to 30 days
(B) 30 days to 180 days
(C) 91 days to 364 days
(D) 15 days to 90 days

Ans :

(D) 15 days to 90 days
Transactions under the BRDS are intended for short-term liquidity management. The scheme specifies a clear maturity window for these operations. The minimum tenor for a BRDS transaction is 15 days, and the maximum tenor allowed is 90 days. This aligns with the short-term nature of the underlying trade bills being used as collateral.

May/June 2016

47. Which of the following bills are NOT eligible as cover for rediscounting under the BRDS?
(A) House bills and bills of finance companies.
(B) Bills arising from a bona fide commercial transaction.
(C) Unencumbered bills of exchange.
(D) Bills with an unexpired tenor of not more than 90 days.

Ans :

(A) House bills and bills of finance companies.
The integrity of the BRDS relies on the quality of the underlying bills. Only genuine trade bills arising from the sale of goods/services are eligible. To prevent its misuse, the scheme explicitly excludes 'house bills' (bills of exchange between associated firms where no real trade has occurred) and bills of finance companies from being used as cover.

Oct/Nov 2009

48. How is interest calculated and applied in a BRDS transaction?
(A) On a back-ended basis, calculated on a 360-day year.
(B) On a front-ended basis, calculated on an actual/365 basis.
(C) As a floating rate paid monthly, linked to MIBOR.
(D) On a simple interest basis, paid along with the principal at maturity.

Ans :

(B) On a front-ended basis, calculated on an actual/365 basis.
A BRDS transaction is carried out on a discounted basis. The interest, or discount, is calculated for the tenor of the transaction using an actual/365 day count convention. This interest is deducted upfront (front-ended basis) from the principal amount. The borrower receives the principal less the discount, and repays the full principal amount at maturity.

May/June 2023

49. Assertion (A): The effective yield for the lender in a BRDS transaction is higher than the nominal discount rate.
Reason (R): The interest in a BRDS transaction is calculated on a front-ended basis, meaning the lender disburses an amount less than the principal.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Since the interest (discount) is deducted upfront, the lender's actual funds outlay is less than the face value of the DUPN. However, the interest earned is calculated on the full face value. Earning interest on the full principal while deploying a smaller amount results in an effective yield that is mathematically higher than the stated discount rate.

Oct/Nov 2018

50. When were the Long-Term Repo Operations (LTRO) introduced by the RBI?
(A) February 2020
(B) October 2019
(C) August 2020
(D) January 2021

Ans :

(A) February 2020
The Reserve Bank of India announced the introduction of Long-Term Repo Operations (LTRO) in February 2020. This measure was designed to inject durable liquidity into the banking system at a low cost and encourage banks to improve credit flow to productive sectors

NODIA

Ans :

(D) To mandate that all investors hold securities only in dematerialised form.
The depositories legislation aims to provide a legal basis for depositories, make securities fungible, and exempt intra-depository transfers from stamp duty. Crucially, it gives an investor the option to choose between holding securities in the existing physical form or in a dematerialised form within a depository. It does not mandate that all investors must use the dematerialised mode.

Oct/Nov 2008

15. What is the relationship between a depository and a depository participant (DP)?
(A) The depository is the principal and the DP is its agent.
(B) The depository is an agent of the DP.
(C) They are equal partners in a joint venture.
(D) The DP is a regulator, and the depository is a regulated entity.

Ans :

(A) The depository is the principal and the DP is its agent.
A depository does not render its services directly to investors but operates through agents known as Depository Participants (DPs). The relationship between them is explicitly stated as that of a principal (the depository) and an agent (the DP). This relationship is governed by the bye-laws of the depository and the agreement entered into between them.

May/June 2018

16. What is the key difference in the account number structure between CDSL and NSDL?
(A) CDSL accounts consist of 14 numeric digits, while NSDL accounts are composed of 16 mixed alphanumeric characters.
(B) CDSL uses a 16-digit numeric account, while NSDL uses an 'IN' prefix followed by 14 numeric digits.
(C) CDSL accounts are alphanumeric starting with a 'CD' prefix, whereas NSDL accounts are composed of purely numeric digits.
(D) CDSL accounts are composed of 16 numeric digits, whereas NSDL accounts begin with an 'NS' prefix followed by 14 digits.

Ans :

(B) CDSL uses a 16-digit numeric account, while NSDL uses an 'IN' prefix followed by 14 numeric digits.
The chapter highlights a distinct difference in the structure of dematerialised account numbers between the two depositories. Accounts held with Central Securities Depository Ltd (CDSL) consist of 16 numeric digits. In contrast, accounts with National Securities Depository Ltd (NSDL) are alphanumeric, comprising two alpha characters (IN) followed by 14 numeric digits.

Oct/Nov 2017

17. Which type of shares are issued by companies to their existing shareholders free of cost by capitalising accumulated reserves?
(A) Rights Shares
(B) Bonus Shares
(C) Equity Shares with differential rights
(D) Preference Shares

Ans :

(B) Bonus Shares
Bonus shares are shares issued by a company to its existing shareholders at no cost. This is achieved by capitalising the company's accumulated reserves from profits earned in previous years or from the share premium account. It is essentially a way of rewarding shareholders without a cash outflow and converting reserves into equity capital.

May/June 2023

18. What is a key feature of Preference Shares?
(A) They are entitled to a fixed dividend that is paid before any dividend on equity shares.
(B) They always offer voting rights to the holder.
(C) Their claims in liquidation rank above the claims of the company's creditors.
(D) They can be issued with a tenure of up to 30 years for any project.

Ans :

(A) They are entitled to a fixed dividend that is paid before any dividend on equity shares.
Preference shares, or preferred stock, do not offer voting rights. Their primary feature is the entitlement to a fixed dividend, which must be paid out before any dividend is distributed to equity shareholders. In liquidation, their claims rank below creditors and bondholders but above equity shareholders. Their tenure cannot exceed 20 years, except for infrastructure projects.

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To ensure that the participants in the LTRO auctions are primarily dealing in significant sums suitable for institutional liquidity management, a minimum bid size is stipulated. Banks are required to place their requests for amounts that are a minimum of ₹1 crore and in multiples of ₹1 crore thereafter for any single bid.

Oct/Nov 2006

56. "The purpose of the TLTRO is to ensure that there is enough liquidity in markets like corporate bond market and their yield do not go up in the context of the COVID setback. [...] On March 27, 2020, the RBI launched the first TLTRO to provide liquidity in the corporate bond market through banks. [...] In a similar step, the RBI also conducted a TLTRO 2.0 for supporting fund injections to NBFCs through banks."
Based on the excerpt, what was the prime objective for launching TLTRO and what specific market was it initially designed to support?
(A) To reduce inflation; the government securities market.
(B) To stabilize the currency; the foreign exchange market.
(C) To recapitalize banks; the equity market.
(D) To provide liquidity; the corporate bond market.

Ans :

(D) To provide liquidity; the corporate bond market.
The excerpt clearly states that the purpose of TLTRO was to ensure adequate liquidity and prevent yields from rising, specifically mentioning the corporate bond market. It highlights the context of the COVID-19 setback, which caused large sell-offs in corporate bonds. The launch on March 27, 2020, was explicitly aimed at providing liquidity to this stressed market segment.

May/June 2021

57. What is the nature of the interest rate for funds availed by banks under Targeted Long-Term Repo Operations (TLTRO)?
(A) Fixed rate equal to the MSF rate.
(B) Fixed rate equal to the reverse repo rate.
(C) Floating rate linked to the policy repo rate.
(D) Zero-interest rate with a processing fee.

Ans :

(C) Floating rate linked to the policy repo rate.
Unlike the initial LTROs which were at a fixed rate, the Targeted LTROs (TLTRO) featured a different interest rate structure. For funds availed by banks under the TLTRO scheme, the interest rates were floating. These floating rates were directly linked to the prevailing policy repo rate, meaning the cost of funds would change if the repo rate changed.

Oct/Nov 2010

58. Under the TLTRO 2.0 scheme, where were banks specifically required to invest the borrowed funds?
(A) In investment-grade corporate debt from the primary market only.
(B) In government securities of more than 5-year maturity.
(C) In debt instruments issued by NBFCs and MFIs.
(D) In equity instruments of infrastructure companies.

Ans :

(C) In debt instruments issued by NBFCs and MFIs.
The "Targeted" aspect of TLTROs meant that the end-use of funds was specified. While the initial TLTRO focused on broader investment-grade corporate debt, the subsequent TLTRO 2.0 was more specific. It was conducted to support fund injections to Non-Banking Financial Companies (NBFCs) and Micro Finance Institutions (MFIs), requiring banks to invest in their debt instruments.

NODIA

May/June 2013

59. As per RBI guidelines for TLTRO, what was the mandated split for acquiring eligible instruments from the primary and secondary markets?
(A) 75% from primary market, 25% from secondary market.
(B) Up to 50% from primary market, remaining 50% from secondary market.
(C) 100% from the primary market only.
(D) 25% from primary market, 75% from secondary market.

Ans :

(B) Up to 50% from primary market, remaining 50% from secondary market.
The RBI's guidelines for TLTRO aimed to support both new debt issuances and provide liquidity to existing holders. Banks were mandated to

by providing them with funds of a longer, more stable maturity.

May/June 2007

51. What were the dual objectives of the RBI for introducing Long-Term Repo Operations (LTRO)?
(A) To control inflation and strengthen the rupee.
(B) To finance government deficit and manage external debt.
(C) To encourage maturity transformation by banks and assure durable liquidity.
(D) To increase bank profitability and reduce non-performing assets.

Ans :

(C) To encourage maturity transformation by banks and assure durable liquidity.
The RBI introduced LTROs with two specific goals. The first was to encourage banks to undertake maturity transformation—borrowing short-term and lending long-term—to boost credit flow. The second was to assure the banking system of the availability of liquidity over a longer horizon (durable liquidity) at a reasonable and predictable cost, linked to the policy rate.

Oct/Nov 2025

52. What was the total amount and the tenors of the LTROs that the RBI decided to conduct starting from February 15, 2020?
(A) ₹50,000 crores for tenors of 6 months and 1 year.
(B) ₹2,00,000 crores for tenors of 3 years and 5 years.
(C) ₹1,00,000 crores for tenors of 1 year and 3 years.
(D) ₹75,000 crores for tenors of 90 days and 180 days.

Ans :

(C) ₹1,00,000 crores for tenors of 1 year and 3 years.
As per the initial announcement, the RBI committed to conducting term repos of 1-year and 3-year tenors. The total amount of liquidity planned to be injected through these operations was up to a cumulative ₹1,00,000 crores. This was a significant move to provide long-term funds at the prevailing policy repo rate, enhancing monetary policy transmission.

May/June 2012

53. At what rate are funds provided to banks under the Long-Term Repo Operations (LTRO) scheme?
(A) At a floating rate linked to the 10-year G-Sec yield.
(B) At a rate determined through a variable rate auction.
(C) At the Marginal Standing Facility (MSF) rate.
(D) At the prevailing policy repo rate.

Ans :

(D) At the prevailing policy repo rate.
A key feature of the LTRO scheme was the cost at which funds were made available to banks. The operations were conducted at a fixed rate, which was the prevailing policy repo rate at the time of the auction. This ensured that banks received durable liquidity at a predictable and affordable cost, directly linked to the central bank's policy stance.

Oct/Nov 2014

54. In the event of over-subscription in an LTRO auction, how is the allotment done?
(A) Allotment is done on a pro-rata basis.
(B) Bids are accepted on a first-come, first-served basis.
(C) Higher bids are given preference over lower bids.
(D) The auction is cancelled and rescheduled for a later date.

Ans :

(A) Allotment is done on a pro-rata basis.
The operational guidelines for LTROs specify the procedure for handling situations where the total amount of bids received from banks exceeds the notified amount for the auction. In such cases of over-subscription, the allotment is not based on timing or price but is done on a pro-rata basis, ensuring a fair distribution among all bidding banks.

May/June 2019

55. What is the minimum bid amount for a bank participating in an LTRO auction?
(A) ₹10 lakh and multiples thereof.
(B) ₹50 lakh and multiples thereof.
(C) ₹1 crore and multiples thereof.
(D) ₹5 crore and multiples thereof.

Ans :

(C) ₹1 crore and multiples thereof.

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(D) ₹150 crore

Ans :

(A) ₹15 crore
The rules for CP issuance state that the aggregate amount shall be within the limit approved by the company's Board of Directors or the quantum indicated by the Credit Rating Agency for the specified rating, whichever is lower. In this case, the board limit is ₹20 crore and the CRA limit is ₹15 crore. Therefore, the lower amount of ₹15 crore is the maximum permissible issuance.

Oct/Nov 2017

64. Identify the correct statement(s) regarding Treasury Bill auctions.
1. Bids are submitted on the E-Kuber platform.
2. Auctions use a yield-based bidding method.
3. Settlement occurs on a T+1 basis.
4. Physical bids are never accepted under any circumstances.

(A) 1 and 3 only
(B) 1, 2 and 3 only
(C) 2 and 4 only
(D) All of the above

Ans :

(A) 1 and 3 only
Bids are submitted electronically on the E-Kuber platform (Statement 1 is correct). Settlement follows a T+1 cycle (Statement 3 is correct). The auction is price-based, not yield-based (Statement 2 is incorrect). Physical bids can be accepted, but only in the rare event of a failure of the E-Kuber system (Statement 4 is incorrect).

May/June 2008

65. Which of the following statements about participants in the call/notice money market is correct?
(A) All participants can act as both borrowers and lenders.
(B) Banks and Primary Dealers can operate as both borrowers and lenders.
(C) Primary Dealers can only act as lenders in the market.
(D) Insurance companies and mutual funds can act as both borrowers and lenders.

Ans :

(B) Banks and Primary Dealers can operate as both borrowers and lenders.
Participation rules in the call/notice money market are specific. Scheduled commercial banks and Primary Dealers (PDs) are the core participants and have the flexibility to operate on both sides of the market, i.e., as both borrowers and lenders. Other participants like insurance companies and mutual funds are generally permitted only as lenders of funds.

NODIA

Oct/Nov 2013

66. "BRDS is the rediscounting of trade bills, which have already been purchased by/discounted with the bank by the customers. [...] To provide liquidity and to promote the bills culture in the economy, the RBI formulated a scheme, whereby, a bank may raise funds by issue of Derivative Usance Promissory Notes (DUPN) in convenient lots and maturities on the strength of genuine trade bills discounted by it." According to the text, what are the two main purposes behind the formulation of the Bills Rediscounting Scheme (BRDS) by the RBI?
(A) To finance government debt and control money supply.
(B) To provide liquidity to banks and to promote a bills culture.
(C) To regulate NBFCs and to manage foreign exchange rates.
(D) To create a secondary market for Treasury Bills and Commercial Papers.

Ans :

(B) To provide liquidity to banks and to promote a bills culture.
The provided text explicitly states the two-fold rationale for the BRDS scheme. The first purpose is to provide an avenue for banks to gain liquidity by leveraging their portfolio of discounted trade bills. The second, broader economic objective is to "promote the bills culture," encouraging the use of bills of exchange for trade financing, which improves transparency and payment discipline.

May/June 2015

67. Which statement correctly identifies a minimum amount specified for a money market instrument or operation?
(A) The minimum bid amount for a Treasury Bill is ₹10,000.
(B) The minimum amount for a Certificate of Deposit is ₹1 lakh.
(C) The minimum bid amount for an LTRO is ₹5

crore.
(D) The minimum issuance amount for a Commercial Paper is ₹1 lakh.

Ans :

(A) The minimum bid amount for a Treasury Bill is ₹10,000.
Treasury Bills are issued for a minimum amount of ₹10,000 and in multiples of ₹10,000. The minimum amount for a Certificate of Deposit is ₹5 lakh. The minimum bid amount for LTRO is ₹1 crore. The text does not specify a minimum issuance amount for Commercial Paper.

Oct/Nov 2012

68. Which of the following statements is true regarding the buyback of money market instruments?
(A) Certificates of Deposit can be bought back by the issuer at any time after issue.
(B) Commercial Papers can be bought back by the issuer only after 7 days from the date of issue.
(C) Certificates of Deposit can be bought back by the issuer only after 7 days from the date of issue.
(D) Commercial Papers can be bought back by the issuer only after 15 days from the date of issue.

Ans :

(C) Certificates of Deposit can be bought back by the issuer only after 7 days from the date of issue.
The rules for buyback differ between instruments. For Certificates of Deposit (CDs), the issuing bank can make a buyback offer, but only after 7 days have passed since the date of issue. For Commercial Papers (CPs), the minimum period before a buyback can be offered is longer, at 30 days from the date of issue.

May/June 2011

69. A bank needs funds for 120 days. Which of the following instruments under the Bills Rediscounting Scheme (BRDS) would be appropriate for this purpose?
(A) This requirement cannot be met through the BRDS.
(B) A Derivative Usance Promissory Note (DUPN) with a 120-day tenor.
(C) A series of four consecutive 30-day DUPNs.
(D) A DUPN backed by bills having a maturity of 120 days.

Ans :

(A) This requirement cannot be met through the BRDS.
The Bills Rediscounting Scheme (BRDS) has a strict tenor limit. The maximum tenor for any transaction under this scheme is 90 days. Since the bank's requirement is for 120 days, which exceeds the maximum permissible limit, it cannot use a single BRDS transaction to meet this specific funding need. The underlying bills also cannot have an unexpired tenor of more than 90 days.

Oct/Nov 2020

70. In the wake of the COVID-19 pandemic, the RBI observes significant sell-offs in the corporate bond market, leading to stress and liquidity issues for even investment-grade companies. To counter this, the RBI decides to launch a special liquidity facility for banks. Which specific RBI operation, launched on March 27, 2020, directly addresses this scenario by providing funds to banks for investing in the corporate bond market?
(A) Long-Term Repo Operations (LTRO)
(B) Targeted Long-Term Repo Operations (TLTRO)
(C) Bills Rediscounting Scheme (BRDS)
(D) Marginal Standing Facility (MSF)

Ans :

(B) Targeted Long-Term Repo Operations (TLTRO)
The scenario described is the precise context for the introduction of the Targeted Long-Term Repo Operations (TLTRO). As mentioned in the text, the first TLTRO was launched on March 27, 2020, with the prime objective of providing liquidity to the corporate bond market through banks, ensuring that market yields did not spike due to pandemic-related stress.

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CHAPTER 31

Capital Markets and Stock Exchanges

Oct/Nov 2015

1. What is the primary role of the capital market in an economy as described in the chapter?
   (A) To provide short-term working capital for day-to-day business operations.
   (B) To act as a conduit for channelising and mobilising long-term funds to enterprises.
   (C) To facilitate currency exchange for international trade and foreign investments.
   (D) To regulate the prime lending rates set by commercial banks and financial institutions.

   Ans :

   (B) To act as a conduit for channelising and mobilising long-term funds to enterprises.
   The capital market plays a critical role in mobilizing savings for investment in productive assets, thereby enhancing a country's long-term growth prospects. It serves as an efficient conduit to channelise funds to enterprises, transforming the economy into a more competitive marketplace by facilitating long-term investment rather than short-term finance or currency exchange.

May/June 2009

2. According to the text, which market is specifically defined as the market for long-term debt and equity shares?
   (A) Capital Market
   (B) Money Market
   (C) Foreign Exchange Market
   (D) Commodity Market

   Ans :

   (A) Capital Market
   The chapter explicitly defines the capital market as a market for long-term debt and equity shares. In this market, capital funds, comprising both equity and debt, are issued and traded. It encompasses both private placement sources and organized forums like stock exchanges, distinguishing it from markets dealing with short-term funds or other asset classes.

Oct/Nov 2024

3. In which market are securities such as shares, bonds, or debentures offered to the public for the first time for the purpose of raising capital?
   (A) Secondary Market
   (B) Derivatives Market
   (C) Primary Market
   (D) Over-the-Counter Market

   Ans :

   (C) Primary Market
   The primary market is the segment of the capital market where securities are offered to the public for subscription for the first time. This process is used by companies to raise new capital. The issuance is subject to guidelines from SEBI and provisions of the Companies Act. It is distinct from the secondary market where existing securities are traded.

May/June 2011

4. Which of the following are key intermediaries in the primary market?
   (A) Stock brokers and depository participants
   (B) Credit rating agencies and auditors
   (C) Retail investors and high net-worth individuals
   (D) Merchant bankers, issue managers, and lead arrangers

   Ans :

   (D) Merchant bankers, issue managers, and lead arrangers
   The primary market involves a number of intermediaries to facilitate the issuance of new securities. Key among these are merchant bankers, issue managers, and lead arrangers who manage the process of bringing securities to the market. Banks also participate as bankers to the issue, arrangers, and underwriters, playing a crucial role in the capital-raising process.

Oct/Nov 2007

5. What is the defining characteristic of a secondary market?

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acquire eligible instruments by investing up to 50% of the funds in the primary market (new issuances). The remaining 50% had to be invested in the secondary market, including purchases from mutual funds and NBFCs.

Oct/Nov 2021

60. What is the accounting treatment for securities that banks are required to maintain against funds received under TLTRO?

(A) They must be classified under the Available for Sale (AFS) category.
(B) They can be classified under any category at the bank's discretion.
(C) They must be maintained in the Held to Maturity (HTM) book.
(D) They must be classified under the Held for Trading (HFT) category.

Ans :

(C) They must be maintained in the Held to Maturity (HTM) book.
To ensure that the liquidity provided under TLTRO translates into stable investments, the RBI specified the accounting treatment for the corresponding securities. Banks are required to maintain the specified securities acquired using TLTRO funds in their Held to Maturity (HTM) portfolio. These must be held in the HTM book until the maturity of the TLTRO loan.

May/June 2024

61. A Scheduled Commercial Bank is analyzing its borrowing options to manage its reserve requirements. It has a capital fund of ₹2,000 crores. The current date is a reporting Friday, and its average borrowing in Call/Notice money for the fortnight so far has been ₹1,900 crores. Based on the prudential borrowing limits, what is the maximum additional amount this bank can borrow in the Call/Notice money market on this specific day?

(A) ₹100 crore
(B) ₹500 crore
(C) ₹600 crore
(D) ₹2,500 crore

Ans :

(C) ₹600 crore
The bank faces two limits: a daily average limit of 100% of capital funds (₹2,000 cr) for the fortnight and a single-day limit of 125% of capital funds ($1.25 \times 2000 = ₹2,500$ cr). Its current borrowing is ₹1,900 cr. The maximum it can borrow on this day is ₹2,500 cr. Therefore, the additional amount it can borrow is ₹2,500 cr - ₹1,900 cr = ₹600 cr.

Oct/Nov 2008

62. Match the money market instrument in List-I with its characteristic in List-II.

	List-I (Instrument)		**List-II (Characteristic)**
P.	Treasury Bill	1.	Unsecured Promissory Note
Q.	Certificate of Deposit	2.	Uncollateralised inter-bank lending for 2–14 days
R.	Commercial Paper	3.	Zero-coupon instrument issued by the government
S.	Notice Money	4.	Negotiable instrument issued by banks with a minimum value of ₹ 5 lakh

(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

Ans :

(A) P-3, Q-4, R-1, S-2
Treasury Bill (P) is a zero-coupon instrument issued by the government (3). Certificate of Deposit (Q) is a negotiable instrument issued by banks, with a minimum value of ₹5 lakh (4). Commercial Paper (R) is an unsecured promissory note issued by corporates (1). Notice Money (S) is uncollateralised inter-bank lending for 2-14 days (2).

May/June 2006

63. A corporation with a net worth of ₹150 crores and a 'standard' asset classification on its bank loans wishes to raise short-term funds. It obtains a credit rating of 'A2' for a Commercial Paper issuance. The board has approved a limit of ₹20 crore for the CP program. The rating agency has indicated a quantum of ₹15 crore for the 'A2' rating. What is the maximum aggregate amount of Commercial Paper this corporation can issue?

(A) ₹15 crore
(B) ₹20 crore
(C) ₹35 crore

NODIA

of the two major stock exchanges in India today and has permanent recognition from SEBI. Its establishment marked a significant development in the modernization and technological advancement of the Indian capital market, introducing nationwide electronic trading.

May/June 2006

10. Which stock exchange, a subsidiary of BSE, has been set up in the International Financial Services Centre (IFSC), Gandhinagar?
(A) India International Exchange (India INX)
(B) NSE IFSC Ltd.
(C) Metropolitan Stock Exchange of India Ltd.
(D) Over the Counter Exchange of India Ltd. (OTCEI)

Ans :

(A) India International Exchange (India INX)
The India International Exchange (India INX) is a stock exchange that is a subsidiary of BSE Ltd. It has been specifically established in the International Financial Services Centre (IFSC) located in Gandhinagar. This exchange is designed to cater to international investors and facilitate trading in a wide range of global securities and derivatives.

Oct/Nov 2022

11. What is the process of transforming a stock exchange from a 'mutually owned' association to a 'shareholders-owned' company called?
(A) Corporatisation
(B) Dematerialisation
(C) Securitisation
(D) Demutualisation

Ans :

(D) Demutualisation
Demutualisation refers to the transition process of an exchange from a mutually owned association, where broker members are the owners, managers, and traders, to a shareholders-owned corporate structure. This process results in the clear segregation of ownership, management, and trading rights into separate hands, enhancing governance and operational efficiency. BSE, NSE, and OTCEI are examples of demutualised exchanges.

May/June 2019

12. In a demutualised stock exchange, which three functions are clearly segregated from one another?
(A) Trading, clearing, and settlement
(B) Ownership, management, and trading rights
(C) Listing, surveillance, and compliance
(D) Equity, debt, and derivatives trading

Ans :

(B) Ownership, management, and trading rights
The core effect of demutualisation is the segregation of the three key functions: ownership, management, and trading rights. In a mutual exchange, these are combined within the broker-member group. However, in a demutualised structure, ownership is held by shareholders, management is a professional body, and trading rights are held by brokers, creating a more transparent and accountable governance model.

Oct/Nov 2013

13. When did the Depositories Act, which provides for the regulation of depositories in securities, come into being?
(A) September 1995
(B) April 2003
(C) August 1996
(D) October 2004

Ans :

(C) August 1996
As part of capital market reforms, the Government of India first promulgated the Depositories Ordinance in September 1995. Subsequently, the Depositories Bill was introduced, and the Depositories Act, 1996, came into being in August 1996. This act provided the legal framework for the establishment and regulation of depositories to hold securities in electronic form.

May/June 2005

14. Which of the following is NOT an objective of the depositories legislation as mentioned in the chapter?
(A) To make securities fungible.
(B) To exempt all transfers of shares within a depository from stamp duty.
(C) To provide a legal basis for the establishment of depositories.
(D) To mandate that all investors hold securities only in dematerialised form.

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(A) It is the market where companies issue new securities to raise capital from the public.
(B) It is a market that exclusively deals with short-term government securities and treasury bills.
(C) It is a market where already existing or pre-issued securities are traded among investors.
(D) It is a restricted market that is only accessible to large institutional investors and banks.

Ans :

(C) It is a market where already existing or pre-issued securities are traded among investors.
The secondary market is a trading avenue where securities, after being initially offered to the public in the primary market and/or listed on a stock exchange, are bought and sold among investors. It provides liquidity for these securities and comprises both equity and debt markets. It does not involve the creation of new capital for the issuing company.

May/June 2025

6. Based on the composition of the capital market shown in Figure 31.1, which of the following is a component of the secondary market?
(A) Public Issue Market
(B) Auction Market (Stock Exchanges)
(C) Private Placement Market
(D) Initial Public Offering Market

Ans :

(B) Auction Market (Stock Exchanges)
As per the diagram illustrating the composition of the capital market, the secondary market is bifurcated into the auction market and the dealer market. The auction market specifically includes stock exchanges, where listed securities are traded. The public issue market and private placement market are components of the primary market, not the secondary market.

Oct/Nov 2021

7. For managers of a company, how does the secondary market serve as a monitoring and control conduit?
(A) By providing a direct mechanism for shareholders to remove underperforming executives or appoint new management teams.
(B) By acting as a regulatory body that fixes the specific interest rates for all forms of corporate borrowing and lending.
(C) By issuing binding mandates that dictate the exact dividend payout policy and future reinvestment strategy of the company.
(D) By aggregating information through the price discovery process and enabling value-enhancing control activities.

Ans :

(D) By aggregating information through the price discovery process and enabling value-enhancing control activities.
The secondary market acts as a monitoring and control mechanism for company managers by enabling value-enhancing control activities, supporting incentive-based management contracts, and aggregating crucial information through the price discovery process. This information guides management decisions and reflects the market's perception of the company's performance, influencing corporate governance and strategy.

NODIA

May/June 2014

8. Which of the following is described as the oldest stock exchange in India, established in 1875?
(A) BSE Ltd. (Erstwhile Bombay Stock Exchange)
(B) National Stock Exchange of India Ltd. (NSE)
(C) Calcutta Stock Exchange Ltd. (CSE)
(D) Metropolitan Stock Exchange of India Ltd.

Ans :

(A) BSE Ltd. (Erstwhile Bombay Stock Exchange)
BSE Ltd., formerly known as the Bombay Stock Exchange, is identified as the oldest stock exchange in India. It was established in 1875 and holds the distinction of being the first stock exchange to be granted permanent recognition from the Securities and Exchange Board of India (SEBI). It remains one of the two major stock exchanges in the country.

Oct/Nov 2010

9. In what year was the National Stock Exchange of India Ltd. (NSE) established?
(A) 1875
(B) 1908
(C) 1992
(D) 2012

Ans :

(C) 1992
The National Stock Exchange of India Ltd. (NSE) was established in the year 1992. It is one

Oct/Nov 2011

19. Consider the following statements regarding preference shares:
Statement 1: Cumulative Preference Shares allow unpaid dividends to accumulate and be paid out before any equity dividend.
Statement 2: Participating Preference Shares allow holders to share in profits over and above the contracted fixed dividend.
Which of the statements is/are correct?
(A) Only Statement 1
(B) Only Statement 2
(C) Both Statement 1 and Statement 2
(D) Neither Statement 1 nor Statement 2

Ans :

(C) Both Statement 1 and Statement 2
Both statements accurately describe specific types of preference shares. Cumulative Preference Shares ensure that any missed dividends (arrears) are accumulated and must be paid in full before equity shareholders receive any dividend. Participating Preference Shares grant the holder a right to participate in the company's profits beyond the fixed dividend, usually linked to the dividend paid on equity shares.

May/June 2012

20. What are Government Securities (G-Secs) as described in the chapter?
(A) Unsecured, high-risk debt instruments, often called junk bonds, issued by private corporations to fund speculative expansion projects.
(B) Short-term, non-tradable promissory notes with a maximum maturity of one year, sold exclusively to commercial banks.
(C) Tradable equity shares of public sector undertakings (PSUs) that represent partial government ownership in those specific entities.
(D) Sovereign, credit risk-free debt instruments issued by the Reserve Bank of India on behalf of the Government of India.

Ans :

(D) Sovereign, credit risk-free debt instruments issued by the Reserve Bank of India on behalf of the Government of India.
Government Securities (G-Secs) are defined as sovereign instruments, meaning they are backed by the government and are considered free from credit risk. They are coupon-bearing and issued by the Reserve Bank of India (RBI) as part of the Central Government's market borrowing program. They are available in a wide range of maturities, from less than one year to forty years.

Oct/Nov 2005

21. Which statement correctly distinguishes between a debenture and a bond as per the text?
(A) Debentures are normally unsecured, while bonds are normally secured.
(B) Debentures are issued only by government agencies, while bonds are issued by companies.
(C) Debentures normally attract stamp duty, while bonds issued by government agencies do not.
(D) Debentures are not tradable, while bonds are freely tradable instruments.

Ans :

(C) Debentures normally attract stamp duty, while bonds issued by government agencies do not.
The chapter differentiates between debentures and bonds on several grounds. A key distinction is that debentures, issued by companies, attract stamp duty based on the respective State Stamp Act. In contrast, bonds issued by government agencies do not attract any stamp duty. Furthermore, debentures are typically secured, while bonds are described as normally unsecured. Both are tradable instruments.

May/June 2021

22. What type of bond is issued at a discount to its face value and repaid at face value upon maturity, with no periodic interest payments?
(A) Coupon Bond
(B) Zero-Coupon Bond
(C) Convertible Bond
(D) Participating Bond

Ans :

(B) Zero-Coupon Bond
A Zero-Coupon Bond is a debt instrument that is issued at a price lower than its face value (at a discount) and is redeemed at its face value when it matures. It does not make periodic interest payments. The investor's return is the difference between the issue price and the redemption price (face value), received as a single bullet payment at maturity.

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average operating profit of at least fifteen crore rupees, calculated on a restated and consolidated basis, during the three preceding years.

May/June 2014

50. If an issuer does not meet the standard profitability and asset criteria for an IPO, what is the alternative route available?
(A) The issue can be made through the book-building process, with at least 75% of the net offer allotted to QIBs.
(B) The issue must be compulsorily structured as a fixed price issue, with a minimum of 50% of the net offer reserved for RIIs.
(C) The issuer must apply for and obtain a special, case-by-case exemption from the Ministry of Finance following a detailed company review.
(D) The issuer is permanently barred from making an IPO and can only raise capital through a rights issue to its existing shareholders.

Ans :

(A) The issue can be made through the book-building process, with at least 75% of the net offer allotted to QIBs.
The regulations provide an alternative route for companies that do not fulfill the standard eligibility conditions for an IPO (related to net tangible assets, net worth, and operating profit). Such an issuer can still bring an IPO, provided the issue is made through the book-building process and it undertakes to allot at least 75% of the net offer to Qualified Institutional Buyers (QIBs).

Oct/Nov 2010

51. As per the NSE's eligibility criteria for IPOs, what is the minimum post-issue paid-up equity capital required for an applicant?
(A) Not less than 3 crore rupees
(B) Not less than 25 crore rupees
(C) Not less than 10 crore rupees
(D) Not less than 50 crore rupees

Ans :

(C) Not less than 10 crore rupees
The National Stock Exchange (NSE) has its own extant eligibility criteria for listing equity shares through an Initial Public Offering. One of the key requirements is that the post-issue paid-up equity capital of the applicant company shall not be less than 10 crore rupees. Additionally, the capitalisation of the applicant's equity must not be less than 25 crore rupees.

May/June 2006

52. Who is eligible to act as a Book Running Lead Manager (BRLM) for an issue?
(A) Any scheduled commercial bank.
(B) The auditors of the issuer company.
(C) Any SEBI-registered stock broker.
(D) A merchant banker possessing a valid SEBI registration.

Ans :

(D) A merchant banker possessing a valid SEBI registration.
A Book Running Lead Manager (BRLM) is a key intermediary responsible for managing a public issue, particularly a book-built one. To be eligible to act as a BRLM, an entity must be a merchant banker holding a valid registration from SEBI in accordance with the SEBI (Merchant Bankers) Regulations, 1992.

Oct/Nov 2022

53. What is the maximum number of shares per allottee covered under a "Safety Net" scheme in a public issue?
(A) 500 shares
(B) 2,000 shares
(C) 1,000 shares
(D) There is no limit on the number of shares.

Ans :

(C) 1,000 shares
A "Safety Net" is a buy-back arrangement finalized by an issuer with the lead merchant banker to provide a floor for the share price post-listing. This scheme is available only to original resident individual allottees and is limited to a maximum of 1,000 shares per allottee, offering them a degree of protection for a limited period.

May/June 2019

54. For how long is a "Safety Net" or buy-back arrangement in a public issue kept open?
(A) Three months from the listing date.
(B) Six months from the last date of dispatch of securities.
(C) One year from the issue closing date.
(D) Until the share price doubles.

Ans :

NODIA

May/June 2017

28. Read the following excerpt and answer the question below.

"Reducing the settlement cycle is expected to create greater efficiencies in the market and further protect investors' interest. Accelerating the settlement cycle will help reduce operational risk, liquidity needs, counterparty risk which would also reduce margin requirements and collateral requirements for broker-dealers."

According to this excerpt, which of the following is a direct benefit of moving from a T+2 to a T+1 settlement cycle?

(A) Significant increase in price volatility across all market segments.
(B) Reduction in margin and collateral requirements for brokers.
(C) Increased operational complexities and compliance burden for all investors.
(D) A guaranteed increase in higher returns for all categories of retail investors.

Ans :

(B) Reduction in margin and collateral requirements for brokers.

The provided text explicitly states that accelerating the settlement cycle to T+1 would reduce various risks, including operational, liquidity, and counterparty risks. As a direct consequence of this risk reduction, it would also lead to a decrease in the margin requirements and collateral requirements that broker-dealers need to maintain, thereby increasing their operational efficiency.

Oct/Nov 2012

29. As per the discussion on the T+1 settlement cycle, which investor category is expected to benefit the most from this change?

(A) Small or retail investors who trade infrequently.
(B) First-time investors who are new to the market dynamics.
(C) Large volume investors like corporates, FIIs, and DIIs.
(D) Investors who exclusively trade in government securities.

Ans :

(C) Large volume investors like corporates, FIIs, and DIIs.

The text notes that while the move to a T+1 settlement cycle will not significantly impact small or retail investors, it will be highly beneficial for large volume investors. These include corporates, Foreign Institutional Investors (FIIs), and Domestic Institutional Investors (DIIs), as an earlier settlement provides them with greater liquidity and reduces their margin requirements on large transactions.

May/June 2007

30. In the Securities Lending Scheme, who acts as the nodal agency and is registered as the 'Approved Intermediary'?

(A) The individual investor lending the securities
(B) The SEBI-registered merchant banker
(C) The defaulting selling broker
(D) The clearing corporation of the stock exchange

Ans :

(D) The clearing corporation of the stock exchange

The Securities Lending and Borrowing scheme enables investors to lend idle securities and earn a return. In this system, the clearing corporation of the stock exchange is designated as the nodal agency. It is registered as the 'Approved Intermediary' (AI) and facilitates the borrowing of securities on behalf of members to meet settlement shortfalls.

Oct/Nov 2023

31. What is an Initial Public Offering (IPO)?

(A) An offering where an unlisted company first issues or sells securities to the public.
(B) An issue of fresh securities by a listed company made exclusively to its existing shareholders on a pro-rata basis.
(C) A non-public offering of securities made to a small, select group of pre-identified institutional or high-net-worth buyers.
(D) A corporate action involving the repurchase of a company's own shares from the open market to reduce outstanding equity.

Ans :

(A) An offering where an unlisted company first issues or sells securities to the public.

An Initial Public Offering, or IPO, is the process through which a privately held, unlisted company goes public by offering its securities (either a fresh issue or an offer for sale of existing securities)

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the integrity and track record of the management are crucial to a company's prospects.

May/June 2013

40. Since 1992, who decides the price of a public issue in the Indian primary market?
(A) The issuer company in consultation with the merchant banker.
(B) The Securities and Exchange Board of India (SEBI) based on a stipulated formula.
(C) The stock exchange where the security will be listed.
(D) An independent committee of auditors and credit rating agencies.

Ans :

(A) The issuer company in consultation with the merchant banker.
The Indian primary market ushered in an era of free pricing in 1992. Since then, SEBI does not play any role in price fixation and there is no stipulated price formula. The issue price is decided by the issuer company in consultation with its merchant banker, who are required to provide full disclosure of the qualitative and quantitative factors justifying the price.

Oct/Nov 2006

41. What is the process where demand for securities is elicited and built-up to assess the price based on bids received from investors?
(A) Fixed Price Issue
(B) Rights Issue
(C) Book Building
(D) Private Placement

Ans :

(C) Book Building
Book Building is a process for price discovery. It involves eliciting and building up demand for the securities proposed to be issued by a corporate body. The final price for the securities is assessed based on the bids obtained for the quantum of securities offered for subscription, providing an opportunity for the market to determine the price.

May/June 2020

42. In a 100% voluntary book-built public issue, what is the minimum percentage of the net offer that must be allotted to Retail Individual Investors (RIIs)?
(A) 35%
(B) 10%
(C) 15%
(D) 50%

Ans :

(A) 35%
For a 100% net offer to the public through a voluntary book-built issue, SEBI has mandated specific allotment proportions for different investor categories. The allocation for Retail Individual Investors (RIIs) must be not less than 35% of the net offer to the public, ensuring significant participation for smaller investors in such issues.

Oct/Nov 2015

43. For a compulsory book-built issue, what is the minimum percentage of the net offer that must be allotted to Qualified Institutional Buyers (QIBs)?
(A) 10%
(B) 35%
(C) 50%
(D) 75%

Ans :

(D) 75%
In the case of a compulsory book-built issue, the allotment proportion for Qualified Institutional Buyers (QIBs) is significantly higher. The regulations require that at least 75% of the net offer to the public must be allotted to QIBs. If this level of subscription from QIBs is not met, the full subscription monies must be refunded.

May/June 2009

44. In a Fixed Price Issue, what is the minimum percentage of the net offer that must initially be made available for allotment to Retail Individual Investors (RIIs)?
(A) 15%
(B) 50%
(C) 35%
(D) 75%

Ans :

(B) 50%
For a fixed price public issue, the allotment guidelines are different from book-built issues. The rules state that a minimum of 50% of the net offer of securities to the public must initially be made available for allotment to Retail Individual

NODIA

May/June 2016

36. What is the defining characteristic of a Red Herring Prospectus (RHP)?

(A) It is a definitive document that contains the final, fixed issue price and the exact number of securities being offered to all public investors.

(B) It is a specialized offer document used exclusively for rights issues and private placements, and is not permitted for use in an IPO.

(C) It represents the final, legally binding prospectus that is filed with the Registrar of Companies only after the book-building process is fully completed.

(D) It omits final details of the issue price, the number of shares being offered, and the total amount of the issue.

Ans :

(D) It omits final details of the issue price, the number of shares being offered, and the total amount of the issue.

A Red Herring Prospectus (RHP) is a preliminary prospectus filed for book-building issues. Its key feature is the absence of complete details regarding the issue price, the number of shares on offer, or the total issue size. These details are finalized only after the price discovery process (bidding) is completed, and are then included in the final prospectus.

Oct/Nov 2018

37. Which section of the Red Herring Prospectus would an investor examine to understand the company's audit reports, financial statements, and get an idea of future dividends?

(A) Business Description

(B) Risk Factors

(C) Financial information

(D) Use of Proceeds

Ans :

(C) Financial information

The "Financial information" segment of the Red Herring Prospectus is described as one of the most important parts. It contains the company's audit reports and financial statements. By analyzing this section, an investor can gauge the safety and profitability of a potential investment and get an idea of potential future dividends based on the disclosed profits.

NODIA

May/June 2022

38. An investor is reviewing the RHP of a company planning an IPO. In the 'Risk Factors' section, she notices a large number of pending legal cases against the company. What would be a prudent course of action for the investor?

(A) To invest a larger amount, as legal issues indicate a large company.

(B) To consider it a good idea to avoid the IPO.

(C) To ignore the legal cases as they are routinely listed risks.

(D) To wait for the court judgments before deciding.

Ans :

(B) To consider it a good idea to avoid the IPO.

The 'Risk Factors' section of the RHP is meant to be scrutinized by investors. The text explicitly suggests that if an investor finds that the company has a number of pending legal cases, it may be a good idea to avoid the IPO. This indicates that such disclosures are significant and should be treated as a serious warning sign.

Oct/Nov 2009

39. In the 'Management' section of an RHP, what kind of information might be considered a risk factor for an investor?

(A) Detailed descriptions of the management's academic qualifications and previous job designations.

(B) Information regarding past successful expansion plans and projects driven by the management team.

(C) The company's stated future growth strategies and detailed marketing and sales plans.

(D) Information about any criminal cases or financial delinquency of key management personnel.

Ans :

(D) Information about any criminal cases or financial delinquency of key management personnel.

While the management section details qualifications and strategies, it also discloses potential red flags. Information about criminal cases, financial delinquency, or pending litigations against directors, promoters, or key management personnel is a significant risk factor. An investor should check this section carefully, as

to the general public for the first time. This is a key event that paves the way for the listing and subsequent trading of the issuer's securities.

May/June 2024

32. A well-established listed company, 'InfraBuild Corp.', wants to raise additional capital for a new project. It decides to issue new shares exclusively to its existing shareholders in the ratio of 1 new share for every 5 shares held. What type of capital issue is 'InfraBuild Corp.' undertaking?
(A) Initial Public Offering (IPO)
(B) Rights Issue (RI)
(C) Follow-on Public Offering (FPO)
(D) Qualified Institutional Placement (QIP)

Ans :

(B) Rights Issue (RI)
The scenario describes a Rights Issue (RI). This is a method where an already listed company proposes to issue fresh securities to its existing shareholders as of a specific record date. The shares are offered in a particular ratio to their current holdings. This route allows companies to raise capital without diluting the stake of existing shareholders who choose to subscribe.

Oct/Nov 2025

33. What is a Qualified Institutional Placement (QIP)?
(A) A public issue of securities open to all categories of investors including retail and institutional.
(B) A private placement of equity shares or convertible securities by a listed company to Qualified Institutional Buyers (QIBs) only.
(C) A rights issue of securities offered on a pro-rata basis to all existing shareholders of a company.
(D) An offer for sale of securities by the promoters of an unlisted company as part of an IPO.

Ans :

(B) A private placement of equity shares or convertible securities by a listed company to Qualified Institutional Buyers (QIBs) only.
A Qualified Institutional Placement (QIP) is a specific type of private placement. It is a capital-raising tool where a listed company issues equity shares or securities convertible into equity shares to a select group of Qualified Institutional Buyers (QIBs) only. It is known as a faster way for a listed company to raise equity capital from the domestic market.

May/June 2008

34. For a rights issue with an aggregate value exceeding Rs. 50 lakhs, what is the SEBI requirement for the issuer company?
(A) It must file a draft letter of offer with SEBI via a Merchant Banker at least 30 days prior to the exchange filing.
(B) It must prepare and file a detailed Red Herring Prospectus with both the Registrar of Companies and SEBI for public comments.
(C) It is required to mandatorily allot at least 75% of the total issue size to Qualified Institutional Buyers (QIBs).
(D) No specific filing with SEBI is necessary, as all rights issues, regardless of size, are completely exempt from regulatory oversight.

Ans :

(A) It must file a draft letter of offer with SEBI via a Merchant Banker at least 30 days prior to the exchange filing.
The chapter specifies that no listed issuer company shall make a rights issue of securities where the aggregate value, including premium, exceeds Rs. 50 lakhs, unless a draft letter of offer has been filed with SEBI. This filing must be done through a Merchant Banker at least 30 days before filing the letter of offer with the Designated Stock Exchange.

Oct/Nov 2014

35. For how long is a draft offer document made available on the SEBI website for public comments?
(A) 7 days
(B) 15 days
(C) 21 days
(D) 30 days

Ans :

(C) 21 days
To enhance transparency and investor participation, the draft offer document filed with SEBI by a merchant banker is also placed on the SEBI website for public comments. This document remains available on the website for a period of twenty-one days from the date of its filing, allowing stakeholders to provide feedback before the issue proceeds.

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Investors (RIIs). The balance is then available for other categories of investors.

Oct/Nov 2024

45. An investor who applies or bids for securities for a value not more than ₹2,00,000 is defined as a:
(A) Qualified Institutional Buyer (QIB)
(B) Non-Institutional Investor (NII)
(C) Retail Individual Investor (RII)
(D) Anchor Investor

Ans :

(C) Retail Individual Investor (RII)
The chapter provides a specific definition for a Retail Individual Investor (RII). An RII is an investor who applies or places bids for securities with a total value of not more than ₹2,00,000. This classification is crucial for determining allocation quotas in public issues, ensuring a certain portion is reserved for smaller, individual investors.

May/June 2011

46. Which of the following investor categories would typically include High Net Worth Individuals (HNIs) and corporate bodies?
(A) Retail Individual Investor (RII)
(B) Qualified Institutional Buyer (QIB)
(C) Anchor Investor
(D) Non-Institutional Investor (NII)

Ans :

(D) Non-Institutional Investor (NII)
A Non-Institutional Investor (NII) is defined as an investor who is neither a Retail Individual Investor (RII) nor a Qualified Institutional Buyer (QIB). This category typically includes High Net Worth Individuals (HNIs), who invest more than the RII limit of ₹2,00,000, and various corporate bodies that do not fall under the QIB definition.

Oct/Nov 2007

47. What is the minimum application value for a Qualified Institutional Buyer to be classified as an "Anchor Investor" in a public issue on the main board?
(A) At least ten crore rupees
(B) At least two crore rupees
(C) At least five crore rupees
(D) At least twenty-five crore rupees

Ans :

(A) At least ten crore rupees
An Anchor Investor is a Qualified Institutional Buyer (QIB) who makes a large application in a public issue through the book-building process, lending credibility to the issue. For an issue on the main board, the QIB must make an application for a value of at least ten crore rupees to be designated as an Anchor Investor.

May/June 2025

48. What is the "Green shoe-option" in the context of a public issue?
(A) An option for retail investors to apply for a specified number of shares at a discounted price.
(B) An option of allotting equity shares in excess of the shares offered in the public issue for price stabilization.
(C) A mandatory buy-back scheme where the issuer must repurchase shares if the price falls.
(D) An option for company promoters to increase their stake in the company after the issue is complete.

Ans :

(B) An option of allotting equity shares in excess of the shares offered in the public issue for price stabilization.
The "Green shoe-option" is a provision in an underwriting agreement that grants the underwriter the right to sell investors more shares than initially planned by the issuer. This option of allotting excess equity shares is used as a post-listing price stabilizing mechanism to support the share price if it falls below the issue price.

Oct/Nov 2021

49. According to the eligibility conditions for making an IPO, what is the minimum average operating profit an issuer should have during the preceding three years?
(A) One crore rupees
(B) Fifteen crore rupees
(C) Three crore rupees
(D) Ten crore rupees

Ans :

(B) Fifteen crore rupees
To be eligible to make an Initial Public Offering (IPO) under the standard route, an issuer must meet certain financial criteria. One of these conditions is that the company must have an

NODIA

Oct/Nov 2019

23. What are the minimum and maximum maturity periods for Commercial Papers?
(A) Minimum 1 day, maximum 90 days
(B) Minimum 15 days, maximum 180 days
(C) Minimum 30 days, maximum five years
(D) Minimum 7 days, maximum one year

Ans :

(D) Minimum 7 days, maximum one year
Commercial Papers are money market instruments, not capital market instruments, and function as short-term borrowings for companies and AIFIs with high credit ratings. The chapter specifies that they are issued for a minimum tenure of 7 days and a maximum tenure of one year. They are issued as promissory notes and are redeemable at par.

May/June 2015

24. According to SEBI's regulatory requirements, corporate debt securities issued to the public must meet which condition?
(A) They must be listed on one or more stock exchanges.
(B) They must be issued in physical form only.
(C) They must have a maturity period of less than 365 days.
(D) They do not require a credit rating from a registered agency.

Ans :

(A) They must be listed on one or more stock exchanges.
The text states that all securities issued by a public issue must be listed on one or more stock exchanges. Additionally, debt securities must carry a credit rating from a SEBI-registered credit rating agency and must be issued and traded in dematerialised (demat) form. This ensures transparency, liquidity, and investor protection in the corporate debt market.

Oct/Nov 2016

25. When did the Securities Transaction Tax (STT) come into effect in India?
(A) April 1, 2003
(B) May 8, 2006
(C) October 1, 2004
(D) January 1, 2022

Ans :

(C) October 1, 2004
Pursuant to the enactment of the Finance (No. 2) Act, 2004, the Government of India notified the Securities Transaction Tax Rules, 2004. The Securities Transaction Tax (STT), a tax levied on transactions done on stock exchanges, subsequently came into effect from October 1, 2004. This tax is a key component of transaction costs in the capital market.

May/June 2010

26. What is the current standard settlement cycle for trades on Indian stock exchanges?
(A) T+2
(B) T+0
(C) T+1
(D) T+3

Ans :

(A) T+2
The chapter states that presently, trades pertaining to the rolling settlement are settled on a T+2 basis, where 'T' stands for the trade day. This means that funds and securities pay-in and pay-out are carried out on the second working day after the trade is executed. This cycle was implemented with effect from April 1, 2003.

Oct/Nov 2020

27. What is the primary function of the 'Auction' process on a stock exchange?
(A) To determine the official opening price of a stock for each trading day.
(B) To sell newly created securities to the public for the first time during an IPO.
(C) To facilitate the execution of large block deals between major institutional investors.
(D) To handle situations of delivery failure by purchasing the requisite securities from the market.

Ans :

(D) To handle situations of delivery failure by purchasing the requisite securities from the market.
An auction is a mechanism used by the stock exchange to ensure settlement is completed even when a selling member fails to deliver the required securities (a bad delivery). The exchange purchases the requisite quantity of securities from the auction market and delivers them to the buying member, thereby fulfilling the transaction and maintaining market integrity.

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(B) Six months from the last date of dispatch of securities.

The Safety Net scheme, designed to support original resident individual allottees, has a defined operational period. The arrangement, which must be disclosed in the prospectus, is kept open for a period of six months. This period commences from the last date of dispatch of securities to the allottees, providing a window for them to exercise this option.

Oct/Nov 2013

55. In a book-building issue, which category of investors is permitted by SEBI (DIP) guidelines to apply at the 'Cut-Off Price'?

(A) Qualified Institutional Buyers only
(B) Non-Institutional Investors only
(C) All categories of investors
(D) Retail individual investors only

Ans :

(D) Retail individual investors only

The 'Cut-Off Price' is the actual discovered issue price in a book-building process. While all investors bid within the price band, the SEBI (Disclosure and Investor Protection) guidelines permit only retail individual investors to have the option of applying at the cut-off price, without specifying a particular bid price within the band.

May/June 2005

56. What does ASBA stand for in the context of capital issues?

(A) Applications Supported by Blocked Amount
(B) Allotment System for Brokerage Accounts
(C) Automated Securities Bidding Application
(D) Approved Syndicate Bank Allotment

Ans :

(A) Applications Supported by Blocked Amount

ASBA stands for "Applications Supported by Blocked Amount". It is an application mechanism for subscribing to public or rights issues. It contains an authorisation from the investor to their bank to block the application money in their account, which is debited only if the application is selected for allotment of securities, streamlining the refund process.

Oct/Nov 2008

57. Which of the following is a major advantage of applying for an IPO through the ASBA facility?

(A) It guarantees a higher number of allotted shares compared to non-ASBA applications.
(B) The investor is not required to have a Permanent Account Number (PAN) for the application.
(C) The investor continues to earn interest on the application money as it remains in their account.
(D) The application form is more complex but provides better security.

Ans :

(C) The investor continues to earn interest on the application money as it remains in their account.

A significant advantage of the ASBA facility is that the application money is only blocked, not debited, from the investor's bank account. Since the funds remain in the account until allotment is finalized, the investor continues to earn interest on that amount. This is a key benefit compared to older methods involving cheque payments and refund delays.

NODIA

May/June 2018

58. For a shareholder to be eligible to use ASBA for a rights issue, which condition must be met?

(A) The shareholder must hold shares in dematerialised form.
(B) The shareholder must be a renouncee.
(C) The shareholder must hold the shares in physical form.
(D) The shareholder must apply for additional shares only.

Ans :

(A) The shareholder must hold shares in dematerialised form.

The use of ASBA for rights issues is subject to certain conditions. One of the primary requirements is that the applicant shareholder must be holding the existing shares in dematerialised (demat) form. They must also have applied for their entitlements in demat form and must not have renounced their rights, either in full or in part.

Oct/Nov 2017

59. When did SEBI institute the guidelines for Qualified Institutional Placement (QIP)?

(A) October 1, 2004
(B) May 1, 2010
(C) December 1, 2012
(D) May 8, 2006

Ans :

(D) May 8, 2006
SEBI introduced the concept and guidelines for Qualified Institutional Placement (QIP) on May 8, 2006. This was done to provide listed Indian companies with a speedy and efficient method for raising capital from the domestic market, thereby reducing their dependence on overseas routes like Foreign Currency Convertible Bonds (FCCBs) and Global Depository Receipts (GDRs).

May/June 2023

60. What is a key procedural advantage of the QIP method over other capital raising methods?
(A) It allows the issuance of securities to all categories of investors, including retail.
(B) It does not involve many common procedural requirements like pre-issue filings with the market regulator.
(C) It does not require the issue to be managed by a SEBI-registered merchant banker.
(D) It guarantees a higher issue price than the prevailing secondary market price.

Ans :

(B) It does not involve many common procedural requirements like pre-issue filings with the market regulator.
The Qualified Institutional Placement (QIP) route scores over other methods primarily due to its speed and efficiency. A major reason for this is that it does not involve many of the usual procedural hurdles, most notably the requirement for submitting pre-issue filings or offer documents to the market regulator, SEBI, for approval or comments.

Oct/Nov 2011

61. Identify the incorrect statement regarding Qualified Institutional Placement (QIP).
(A) It is a capital raising tool for listed companies.
(B) Specified securities can be issued only to QIBs.
(C) A pre-issue filing of the placement document with SEBI is mandatory.
(D) The issue is managed by a SEBI-registered merchant banker.

Ans :

(C) A pre-issue filing of the placement document with SEBI is mandatory.
A key feature that makes QIP a speedy capital-raising method is the absence of a pre-issue filing requirement. The placement document is not filed with SEBI before the issue. Instead, it is placed on the websites of the stock exchanges and the issuer. A copy is filed with SEBI only post-allotment for record purposes.

May/June 2012

62. Assertion (A): The secondary market provides liquidity to securities issued in the primary market.
Reason (R): The secondary market is a trading avenue where pre-issued securities are traded amongst investors after their initial offering.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that the secondary market provides liquidity is true. The reason correctly explains how this is achieved: by providing a platform where existing securities can be freely traded among investors. This ability to easily buy and sell pre-issued securities is the very definition of liquidity in the context of financial instruments.

Oct/Nov 2005

63. Match the stock exchanges in List-I with their corresponding descriptions in List-II.
List-I
P. BSE Ltd.
Q. NSE Ltd.
R. India INX
S. OTCEI
List-II
1. Established in 1990 to aid enterprising promoters.
2. Subsidiary of BSE set up in IFSC, Gandhinagar.
3. The oldest stock exchange of India, set up in 1875.
4. Established in 1992 and is a major stock exchange today.
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2

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(C) P-3, Q-2, R-4, S-1
(D) P-1, Q-4, R-2, S-3

Ans :

(A) P-3, Q-4, R-2, S-1
BSE Ltd. is the oldest exchange (1875). NSE Ltd. was established in 1992. India INX is the BSE's subsidiary in the IFSC. The Over the Counter Exchange of India (OTCEI) was set up in 1990 for smaller companies. The correct matching pairs these facts as P-3, Q-4, R-2, and S-1.

May/June 2021

64. Consider the following statements about eligibility for a Rights Issue:
I. There are no eligibility norms for a listed company making a rights issue.
II. If the issue size exceeds Rs. 50 lakhs, a draft letter of offer must be filed with SEBI.
III. All shareholders, including renouncees, can apply for a rights issue through ASBA.
Which of the above statements is/are correct?
(A) I only
(B) I and II only
(C) II and III only
(D) I, II and III

Ans :

(B) I and II only
Statement I is correct as existing shareholders are expected to know their company. Statement II is also correct, specifying the filing requirement for issues over Rs. 50 lakhs. However, Statement III is incorrect because the text explicitly states that a renouncee is not permitted to use the ASBA facility for making an application in a rights issue.

Oct/Nov 2019

65. Read the following paragraph from the chapter:
"Debentures are bonds issued by a company bearing a fixed rate of interest usually payable half-yearly... Debentures are normally secured/ charged against the asset of the company in favour of the debenture holder. The charge on the assets of the issuer company is created by the Debenture Trustee. These instruments attract stamp duty..."
Based on this text, which of the following is an incorrect characteristic of a debenture?
(A) It is normally a secured instrument.
(B) It is exempt from stamp duty.
(C) The interest payment is typically made on a half-yearly basis.
(D) A Debenture Trustee is responsible for creating the charge on assets.

Ans :

(B) It is exempt from stamp duty.
The provided text explicitly states that debentures "attract stamp duty in accordance with the State Stamp Act of the respective state". Therefore, the statement that a debenture is exempt from stamp duty is incorrect. The other three options—being normally secured, having half-yearly interest, and involving a Debenture Trustee—are all correctly described in the source paragraph.

NODIA

May/June 2015

66. A company issues preference shares with a clause stating that if dividends are not paid in any year, the unpaid amount will be added to the next year's dividend liability. After five years, these shares will automatically become equity shares. What type of instrument has the company issued?
(A) Cumulative Convertible Preference Shares
(B) Participating Preference Shares
(C) Redeemable Preference Shares
(D) Cumulative Preference Shares

Ans :

(A) Cumulative Convertible Preference Shares
This instrument has two distinct features described in the chapter. The accumulation of unpaid dividends is the characteristic of a 'Cumulative Preference Share'. The provision that the shares will become equity shares after a specified date is the feature of a 'Convertible Preference Share'. Combining both, the instrument is a Cumulative Convertible Preference Share.

Oct/Nov 2016

67. Refer to the allotment proportions for a compulsory Book-Built Issue:
(a) QIBs: At least 75% of the net offer to the public
(b) NIIs: Not more than 15% of the net offer to the public
(c) RIIs: Not more than 10% of the net offer to the public
If a company undertakes a compulsory book-built IPO and fails to get the minimum 75% subscription from QIBs, what is the consequence?
(A) The issue is converted into a fixed-price issue.
(B) The shortfall in the QIB portion is re-allocated to RIIs and NIIs.

participation from retail investors.

Ans :

(C) In a multiple price auction, successful bidders are allotted securities at the respective prices/ yields they individually quoted.
The key distinction lies in the allotment price. While a uniform price auction uses a single clearing price for all, a 'Multiple Price' or 'French' auction is different. In this method, successful bidders are awarded securities at the specific prices or yields they had quoted in their bids, leading to multiple allotment prices.

May/June 2009

30. In a yield-based auction, what is the consequence for successful bidders whose quotes are lower than the maximum rate of yield (cut-off yield) accepted?
(A) Their bids are automatically rejected for being too aggressive and distorting the auction.
(B) They are allotted additional securities as a reward for placing a strong bid.
(C) They are allotted securities at a price corresponding to their own bid yield, with no premium or discount applied.
(D) They are required to pay the price differential in the form of a premium.

Ans :

(D) They are required to pay the price differential in the form of a premium.
In a yield-based auction, a lower yield bid translates to a higher price. If the cut-off yield is, for example, 7.00%, a bidder who bid 6.95% is successful. However, the price corresponding to 6.95% is higher than the price corresponding to 7.00%. This difference must be paid by the bidder as a premium.

Oct/Nov 2011

31. At what price are securities typically allocated to non-competitive bidders in a Government of India securities auction?
(A) At the weighted average price of the accepted competitive bids.
(B) At the highest price of the accepted competitive bids, ensuring maximum revenue for the government.
(C) At the lowest price of the accepted competitive bids, providing a benefit to small investors.
(D) At a pre-announced fixed price for all retail investors, set before the auction begins.

Ans :

(A) At the weighted average price of the accepted competitive bids.
Non-competitive bidders do not quote a price or yield. Instead, they agree to accept the outcome of the auction. The allotment for these bidders is made at the weighted average price that is derived from all the successful competitive bids accepted in that auction, ensuring a fair price determined by the market.

May/June 2023

32. Based on the description of 'Issue of Securities through auction', which of the following statements is correct regarding a 'Multiple price' based auction method?
(A) All competitive bids offered up to the maximum rate of yield are accepted at that maximum rate.
(B) Competitive bids offered up to the maximum rate of yield are accepted at their respective bid rates.
(C) Bids quoted higher than the maximum rate of yield are accepted at a discount.
(D) This method is only applicable for price-based auctions, not yield-based auctions.

Ans :

(B) Competitive bids offered up to the maximum rate of yield are accepted at their respective bid rates.
In the case of a 'Multiple price' based method, competitive bids are accepted up to the determined maximum yield or minimum price. Crucially, these successful bids are accepted at their respective bid rates or prices, subject to the notified amount, distinguishing it from the uniform price method.

Oct/Nov 2025

33. What is the minimum investment amount for Government Securities, and in what multiples can further investments be made?
(A) Minimum ₹1,000 and in multiples of ₹1,000.
(B) Minimum ₹10,000 and in multiples of ₹10,000.
(C) Minimum ₹5,000 and in multiples of ₹5,000.
(D) Minimum ₹1,00,000 and in multiples of ₹1,00,000.

Ans :

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CHAPTER 32

Fixed Income Markets – Debt and Bond Markets

Oct/Nov 2018

1. What is a primary function of a deep and liquid government securities market in a country's financial development?

(A) To provide high-risk, high-return investment avenues for speculators and hedge funds.

(B) To determine the risk-free interest rates, enabling price discovery in other market segments.

(C) To exclusively fund the capital expenditure of private corporations through public-private partnerships.

(D) To directly control the inflation rate through open market operations in the equity market.

Ans :

(B) To determine the risk-free interest rates, enabling price discovery in other market segments.

A well-developed government securities market is crucial as it establishes the benchmark risk-free interest rates for various tenors. This serves as a reference for pricing other financial instruments, such as corporate bonds and money market instruments, thereby facilitating efficient price discovery across the entire financial spectrum and contributing to overall market stability.

May/June 2010

2. Which of the following are included under the umbrella of Government Securities in India?

(A) Central Government securities, Treasury bills, and State Development Loans.

(B) Central Government securities, Equity Shares, and State Development Loans.

(C) Treasury bills, Commercial Papers, and Certificates of Deposit.

(D) Corporate Bonds, Treasury bills, and Municipal Bonds.

Ans :

(A) Central Government securities, Treasury bills, and State Development Loans.

Government securities in the Indian context comprise a specific set of debt instruments. These include securities issued by the Central Government (dated securities), short-term Treasury bills which are also issued by the Central Government, and State Development Loans (SDLs) which are issued by the various State Governments to finance their budgetary requirements.

Oct/Nov 2024

3. What is the primary purpose for the issuance of Government Securities in India?

(A) To finance the overseas expansion and global acquisitions of public sector undertakings.

(B) To provide a primary investment vehicle exclusively for foreign central banks and sovereign wealth funds.

(C) To finance the fiscal deficit and manage temporary cash mismatches of the Government.

(D) To regulate the prices of essential commodities and agricultural products in the domestic market.

Ans :

(C) To finance the fiscal deficit and manage temporary cash mismatches of the Government.

The government issues securities primarily as a borrowing tool to manage its finances. These instruments are used to fund the gap between government expenditure and revenue, known as the fiscal deficit. They are also instrumental in managing short-term liquidity issues or temporary mismatches in the government's cash flows, ensuring smooth financial operations.

May/June 2005

4. In which type of special account are Government Securities typically held by banks and institutions with the Reserve Bank of India?

(A) Current Account

(B) Nostro Account

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(C) Dematerialised (Demat) Account
(D) Subsidiary General Ledger (SGL) Account

Ans :

(D) Subsidiary General Ledger (SGL) Account
Banks and financial institutions that are active participants in the government securities market hold their securities in electronic, book-entry form. This is done through Subsidiary General Ledger (SGL) accounts, which are maintained directly with the Reserve Bank of India, acting as the central depository and registry for these government debt instruments.

Oct/Nov 2012

5. For entities that do not have a direct account with the RBI, Government Securities can be held in which type of account opened with banks or Primary Dealers?
(A) Foreign Currency Non-Resident (FCNR) Account
(B) Exchange Earners' Foreign Currency (EEFC) Account
(C) Constituent Subsidiary General Ledger (CSGL) Account
(D) Special Non-Resident Rupee (SNRR) Account

Ans :

(C) Constituent Subsidiary General Ledger (CSGL) Account
Entities that are not direct members of the RBI's SGL system can still hold government securities in a dematerialized form. They can open a Constituent Subsidiary General Ledger (CSGL) account, which is a sub-account maintained by a bank or a Primary Dealer, who in turn holds the consolidated securities in their main SGL account with the RBI.

May/June 2016

6. Based on Table 32.1 'Government Securities Holding (Per cent Share in Outstanding Stock)', what trend can be observed in the holding pattern between March 2010 and March 2020?
(A) The share of Commercial Banks increased, while the share of Insurance Companies decreased.
(B) The share of Commercial Banks declined, while the shares of Insurance Companies and FPIs increased.
(C) The share of both RBI and Provident Funds saw a significant increase.
(D) The share of Corporates increased significantly, becoming the second-largest holder category.

Ans :

(B) The share of Commercial Banks declined, while the shares of Insurance Companies and FPIs increased.
The provided table indicates a shift in the investor base for government securities over the decade. The holding share of Commercial Banks reduced from 47.25% to 40.41%. In contrast, the share of Insurance Companies rose from 22.16% to 25.09%, and the share of Foreign Portfolio Investors (FPIs) grew substantially from 0.59% to 2.44%.

NODIA

Oct/Nov 2021

What is the standard interest payment frequency for dated Government of India securities?
(A) Annually
(B) Quarterly
(C) Monthly
(D) Half-yearly

Ans :

(D) Half-yearly
Dated government securities, which form a major part of the government's market borrowings, carry a specific coupon rate. The interest on these securities is paid out to the investors on a regular, pre-determined schedule. The standard market convention and feature for these instruments is that the coupon or interest is paid on a half-yearly basis.

May/June 2022

8. A Central Government security maturing in 2027 with a coupon of 7.99% is referred to as '7.99% GOI 2027'. What does the term 'dated securities' signify in this context?
(A) The securities are identified by their specific date of maturity and coupon rate.
(B) The securities are considered outdated financial instruments and have officially ceased trading on all secondary market platforms.
(C) The specific interest payment date is the sole identifying feature used for all clearing and settlement operations in the market.
(D) The securities are restricted and can only be purchased on specific dates exclusively announced by the RBI for retail investors.

Ans :

(A) The securities are identified by their specific date of maturity and coupon rate.
Government securities with a maturity of more than one year are commonly known as 'dated securities'. This nomenclature is used because each security is uniquely identified by two key features: its fixed coupon rate and its specific date of maturity. This clear identification helps investors and traders distinguish between the multitude of securities in the market.

Oct/Nov 2009

9. What is the specified range for investment by retail investors under the scheme of non-competitive bidding in primary auctions of Government Securities?
(A) From ₹1,000 to ₹1,00,000
(B) From ₹5,000 to ₹10,00,000
(C) From ₹10,000 to ₹2,00,00,000
(D) From ₹1,00,000 to ₹5,00,00,000

Ans :

(C) From ₹10,000 to ₹2,00,00,000
To encourage wider participation from small investors, the RBI provides a non-competitive bidding facility in the primary auctions of government securities. Under this scheme, retail investors can place bids for small amounts without quoting a price or yield. The investment size for a single bid in this category ranges from a minimum of ₹10,000 to a maximum of ₹2 crore.

May/June 2015

10. According to Table 32.2 'Maturity Bucket-wise Holding of Government Securities', which investor category holds the highest percentage of securities with a maturity of 'Above 25 years'?
(A) Insurance Companies
(B) Commercial Banks
(C) RBI
(D) Provident Funds

Ans :

(A) Insurance Companies
The data in the table clearly shows the holding patterns across different maturity buckets. For securities with a very long tenure, specifically those 'Above 25 years', Insurance Companies are the dominant holders, accounting for 90.4% of the total. This aligns with their long-term liability profile, which requires them to invest in long-duration assets to match their obligations.

Oct/Nov 2017

11. What are State Development Loans (SDLs)?
(A) Securities issued by the Central Government on behalf of states, specifically to fund designated national infrastructure projects.
(B) Short-term, unsecured loan facilities provided directly by the World Bank to various Indian state governments for budgetary support.
(C) A specific type of corporate bond issued by state-level public sector undertakings to finance their own infrastructure development projects.
(D) Securities issued by State Governments to finance their expenditures, auctioned by the RBI.

Ans :

(D) Securities issued by State Governments to finance their expenditures, auctioned by the RBI.
State Development Loans, or SDLs, are dated securities issued by various State Governments in India. They are a primary instrument used by states to raise funds from the market to finance their budget deficits and other expenditures. The auctions for these securities are conducted by the Reserve Bank of India, ensuring a standardized and efficient issuance process.

May/June 2024

12. Which electronic trading system, operated by the RBI, is a key platform for secondary market trading of Government Securities, T-Bills, and SDLs?
(A) National Securities Depository Limited (NSDL)
(B) Negotiated Dealing System - Order Matching (NDS-OM)
(C) Central Depository Services Limited (CDSL)
(D) Real Time Gross Settlement (RTGS)

Ans :

(B) Negotiated Dealing System - Order Matching (NDS-OM)
The secondary market for government securities in India is dominated by the RBI-operated electronic trading platform known as the Negotiated Dealing System - Order Matching (NDS-OM). It is an anonymous order matching system that allows institutional participants to trade G-Secs, T-Bills, and SDLs efficiently,

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(C) Full subscription monies are to be refunded.
(D) The issue is extended by another 10 working days.

Ans :

(C) Full subscription monies are to be refunded.
The rule for compulsory book-built issues is strict regarding the Qualified Institutional Buyer (QIB) portion. The text clearly states "QIBs: At least 75% of the net offer to the public (failing which full subscription monies to be refunded)". This means that meeting the minimum QIB subscription is a mandatory condition for the issue to proceed.

May/June 2010

68. An investor, Ms. Priya, applies for shares in an IPO worth ₹1,50,000 using the ASBA facility. The issue is oversubscribed, and she is allotted shares worth ₹40,000. What happens to the money in her bank account?
(A) The full ₹1,50,000 is debited, and ₹1,10,000 is refunded to the account at a later date.
(B) The entire block of ₹1,50,000 is removed, and she has to pay ₹40,000 through a separate transaction.
(C) The bank debits ₹1,50,000 and keeps the balance of ₹1,10,000 as an advance for future IPO applications.
(D) The bank debits ₹40,000 from her account, and the block on the remaining ₹1,10,000 is removed.

Ans :

(D) The bank debits ₹40,000 from her account, and the block on the remaining ₹1,10,000 is removed.
A key advantage of ASBA is the efficient handling of funds. The application amount is only blocked. After the basis of allotment is finalized, only the amount for the allotted shares (₹40,000 in this case) is debited from the account. The block on the balance amount (₹1,10,000) is then released by the bank, eliminating refund delays.

Oct/Nov 2020

69. Identify the correct pair of a depository and its promoter.
(A) NSDL - Promoted solely by BSE
(B) CDSL - Promoted by IDBI, UTI, and NSE
(C) NSDL - Promoted by IDBI, UTI, and NSE
(D) CDSL - Promoted solely by NSE

Ans :

(C) NSDL - Promoted by IDBI, UTI, and NSE
The chapter clearly outlines the promoters of the two depositories in India. The National Securities Depository Ltd (NSDL), established in 1996, was promoted by the Industrial Development Bank of India (IDBI), Unit Trust of India (UTI), and the National Stock Exchange (NSE). The Central Securities Depository Ltd (CDSL) was promoted by BSE with leading banks.

May/June 2017

70. Which of the following statements regarding the capital market is/are correct?
I. The secondary market is a source of new capital for companies.
II. The primary market is also known as the new issues market.
III. A stock exchange is part of the dealer market.
IV. Demutualisation separates ownership from trading rights.
(A) I and III only
(B) II and IV only
(C) I, II, and IV only
(D) II, III, and IV only

Ans :

(B) II and IV only
Statement I is incorrect; the primary market is for new capital. Statement II is correct as the primary market is where new securities are issued. Statement III is incorrect; a stock exchange is part of the auction market, while the OTC market is part of the dealer market. Statement IV is correct as demutualisation's main purpose is this separation.

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fixed coupon and the fluctuating market yield dictates the bond's price.

Oct/Nov 2014

17. What happens to the price of a bond when the market interest rate rises above the bond's coupon rate?
(A) The price of the bond will rise to a premium to attract new investors.
(B) The price of the bond will have to be lowered to trade at a discount.
(C) The price of the bond will remain unchanged at its face value due to its fixed coupon.
(D) The issuer will increase the coupon rate on the existing bond to match the market rate.

Ans :

(B) The price of the bond will have to be lowered to trade at a discount.
A bond's coupon rate is fixed at issuance. If the prevailing market interest rate for similar bonds rises, the existing bond with its lower coupon becomes less attractive. To compensate a new buyer for the lower interest income, the price of the bond must decrease, or fall to a discount, to offer a competitive overall yield.

May/June 2019

18. An investor is evaluating an 8% bond with a face value of ₹100 and a residual maturity of 5 years. The coupon is paid annually. The current market interest rate for similar 5-year securities is 9%. What is the fair value of this bond? (Use PV Annuity Factor at 9% for 5 years = 3.8897; PV Factor at 9% for 5 years = 0.6499)
(A) ₹96.11
(B) ₹100.00
(C) ₹104.25
(D) ₹92.79

Ans :

(A) ₹96.11
The fair value is the present value of all future cash flows. This includes the present value of the annuity of coupon payments (₹8 per year for 5 years) and the present value of the maturity payment (₹100).
The calculation is:
(₹8 × 3.8897) + (₹100 × 0.6499)
= ₹31.1176 + ₹64.99
= ₹96.1076.
The fair price is approximately ₹96.11.

Oct/Nov 2006

19. According to Bond Theorem 1, what is the relationship between the price of a bond and the change in interest rates?
(A) The price of a bond is directly related to the change in interest rate.
(B) The price of a bond is unrelated to the change in interest rate.
(C) The price of a bond is inversely related to the change in interest rate.
(D) The price of a bond is exponentially related to the change in interest rate.

Ans :

(C) The price of a bond is inversely related to the change in interest rate.
This is the most fundamental principle of bond valuation. When market interest rates (yields) rise, the price of existing fixed-rate bonds falls. Conversely, when market interest rates fall, the price of existing fixed-rate bonds rises. This inverse relationship ensures that the yield of an existing bond adjusts to be competitive with newly issued bonds.

May/June 2021

20. Which bond theorem states that the price increase from a decrease in interest rates is greater than the price decrease from an equivalent increase in interest rates?
(A) Theorem 1
(B) Theorem 3
(C) Theorem 4
(D) Theorem 2

Ans :

(D) Theorem 2
Bond Theorem 2 describes the concept of convexity, which causes an asymmetrical price response. For a given change in interest rates (e.g., pm 1%), the capital gain on a bond when rates fall will be larger in magnitude than the capital loss on the same bond when rates rise by the same amount.

Oct/Nov 2010

21. As per Bond Theorem 3, how does a bond's term to maturity affect its price sensitivity to interest rate changes?
(A) Longer the term to maturity, lower will be its price sensitivity.
(B) The term to maturity has no impact on its price sensitivity.

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(C) Longer the term to maturity, higher will be its price sensitivity.
(D) Only bonds with short-term maturity are sensitive to price changes.

Ans :

(C) Longer the term to maturity, higher will be its price sensitivity.
Bond Theorem 3 highlights the relationship between time and interest rate risk. Bonds with longer maturities have their cash flows spread out over a greater period. Therefore, the discounting effect of a change in interest rates is magnified over this longer duration, making the bond's price more volatile or sensitive to fluctuations in market interest rates.

May/June 2013

22. Consider two bonds with the same maturity but different coupon rates. According to Bond Theorem 4, which bond will experience more price sensitivity?
(A) The bond with the higher coupon.
(B) The bond with the lower coupon.
(C) Both bonds will have the same price sensitivity.
(D) The bond that was issued more recently.

Ans :

(B) The bond with the lower coupon.
Bond Theorem 4 states that for a given maturity, a bond with a lower coupon rate will have greater price sensitivity (or higher duration). This is because a larger portion of its total return is dependent on the final principal payment at maturity, making its present value more sensitive to changes in the discount rate.

Oct/Nov 2022

23. Which of the following statements about bond valuation theorems is incorrect?
(A) The price of a bond is inversely related to the change in interest rate.
(B) Longer the term to maturity of a bond, higher will be its price sensitivity.
(C) Between two bonds of same maturity, the one with the lower coupon will have higher price sensitivity.
(D) The increase in a bond's price for a rate decrease is smaller than the price decrease for an equal rate increase.

Ans :

(D) The increase in a bond's price for a rate decrease is smaller than the price decrease for an equal rate increase.
This statement incorrectly describes the asymmetric price sensitivity of a bond. According to Bond Theorem 2, the increase in the price of a bond when the interest rate goes down by a certain percentage is actually greater than the decrease in its price when the interest rate goes up by the same percentage, a property known as convexity.

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May/June 2018

24. Assertion (A): A 30-year Government bond will exhibit greater price volatility than a 5-year Government bond, assuming both have the same coupon rate.
Reason (R): Bond Theorem 3 states that longer the term to maturity of a bond, higher will be its price sensitivity.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion correctly identifies that a longer-term bond is more volatile. The reason provides the precise underlying principle, Bond Theorem 3, which establishes a direct relationship between a bond's maturity and its price sensitivity to interest rate changes. The longer duration of cash flows for the 30-year bond makes its present value more sensitive to discount rate changes.

Oct/Nov 2016

25. Which combination of bond theorems is correctly stated?
1. Bond prices and interest rates move in opposite directions.
2. For a given change in interest rates, the price increase is equal to the price decrease.
3. As maturity increases, price sensitivity to interest rate changes decreases.
4. For a given maturity, a lower coupon bond has higher price sensitivity.

(A) 1 and 2 only
(B) 2 and 3 only

(C) 1 and 4 only
(D) 3 and 4 only

Ans :

(C) 1 and 4 only
Statement 1 correctly describes the inverse relationship (Theorem 1). Statement 4 correctly describes the relationship between coupon and sensitivity (Theorem 4). Statement 2 is incorrect; the price change is asymmetric (Theorem 2). Statement 3 is incorrect; as maturity increases, price sensitivity also increases (Theorem 3). Thus, only statements 1 and 4 are correct.

May/June 2014

26. On which electronic platform must both competitive and non-competitive bids for Government Security auctions be submitted?
(A) The RBI's Core Banking Solution (E-Kuber) system.
(B) The National Stock Exchange (NSE) trading system.
(C) The Bombay Stock Exchange (BSE) trading system.
(D) The FIMMDA's proprietary bidding portal.

Ans :

(A) The RBI's Core Banking Solution (E-Kuber) system.
The primary issuance of government securities is a centralized process managed by the RBI. All bids, whether they are competitive bids from large institutions or non-competitive bids from retail investors, must be submitted electronically. The designated platform for this entire process is the RBI's own Core Banking Solution, known as the E-Kuber system.

Oct/Nov 2007

27. In a Government Securities auction, if the issue is on a 'price basis', what does this imply?
(A) The coupon rate is determined during the auction, and bidders quote the price they are willing to accept.
(B) Both the coupon rate and the final price are pre-determined by the RBI before the auction begins.
(C) Bidders quote the yield they expect, and the RBI converts this to a price for allotment.
(D) The coupon rate is pre-determined, and bidders have to quote the price they are willing to pay.

Ans :

(D) The coupon rate is pre-determined, and bidders have to quote the price they are willing to pay.
In a price-based auction, which is common for re-issues of existing government securities, the coupon rate is already known and fixed. Participants in the auction then compete by bidding the price they are willing to pay per ₹100 of face value for that security. The RBI then determines a cut-off price to allot the securities.

May/June 2025

28. In a 'Uniform Price' auction for Government Securities, at what price are the securities allotted to successful competitive bidders?
(A) At the individual prices each of them bid, as long as it is above the floor price.
(B) At a single cut-off price (or maximum yield) determined at the auction.
(C) At the weighted average price of all bids received, including rejected bids.
(D) At the highest price bid in the auction, which is paid by all successful bidders.

Ans :

(B) At a single cut-off price (or maximum yield) determined at the auction.
In a 'Uniform Price' or 'Dutch' auction, all bids quoted at or below the maximum accepted yield (or at or above the minimum accepted price) are considered successful. However, all successful bidders are allotted the securities at the same single rate—the cut-off rate determined in the auction, regardless of their individual bid levels.

Oct/Nov 2020

29. How does a 'Multiple Price' auction differ from a 'Uniform Price' auction for Government Securities?
(A) In a multiple price auction, all successful bidders are required to pay the same single, predetermined cut-off price.
(B) Multiple price auctions are a method exclusively reserved for short-term Treasury Bills, not for long-term dated government securities.
(C) In a multiple price auction, successful bidders are allotted securities at the respective prices/yields they individually quoted.
(D) Multiple price auctions have a specific rule that does not permit non-competitive bidding

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enhancing liquidity and price discovery in the market.

Oct/Nov 2005

13. Who guarantees the settlement of all trades executed on the NDS-OM platform?
(A) The Reserve Bank of India (RBI)
(B) The Securities and Exchange Board of India (SEBI)
(C) The Clearing Corporation of India Ltd (CCIL)
(D) The Deposit Insurance and Credit Guarantee Corporation (DICGC)

Ans :

(C) The Clearing Corporation of India Ltd (CCIL)
To mitigate counterparty risk and ensure the smooth functioning of the government securities market, all trades conducted on the NDS-OM platform are centrally cleared and settled. The Clearing Corporation of India Ltd (CCIL) acts as the central counterparty (CCP) for these transactions, guaranteeing the settlement of all trades and thereby enhancing market integrity.

May/June 2011

14. What is the nature of a 'When Issued' (WI) transaction in the context of Central Government securities?
(A) A market mechanism for trading in securities that have already matured and are in the process of being settled post-maturity.
(B) A type of standardized forward contract enabling the purchase of securities at a specified future date and a pre-agreed future price.
(C) A special secondary market auction designed for securities that failed to achieve full subscription during the primary issuance process.
(D) Trading in securities that have been notified for issuance but not yet actually issued.

Ans :

(D) Trading in securities that have been notified for issuance but not yet actually issued.
The 'When Issued' market allows for trading to commence for a security after it has been announced by the issuer but before it is formally issued and settled. This type of transaction permits early price discovery for a new security. Participants are essentially trading the security on a conditional basis, "when, as, and if issued."

Oct/Nov 2019

15. Which of the following statements is correct regarding participation in the 'When Issued' market for Central Government securities?
(A) Resident individuals and NRIs are eligible to undertake only long positions.
(B) Only Primary Dealers and scheduled commercial banks are allowed to participate as market makers.
(C) All institutional entities are permitted to take both long and short positions without any net-worth restrictions.
(D) All short positions taken by institutional players must be closed out one week after the date of auction.

Ans :

(A) Resident individuals and NRIs are eligible to undertake only long positions.
While the 'When Issued' market is open to all entities eligible for primary auctions, there are specific restrictions. Retail-oriented participants, including resident individuals, Hindu Undivided Families (HUF), Non-Resident Indians (NRI), and Overseas Citizens of India (OCIs), are permitted to participate but can only take long positions, meaning they can only buy for future delivery.

May/June 2007

16. Besides face value and maturity, what are the two other crucial parameters that determine the price of a bond?
(A) The issuer's credit rating and the auditor's name.
(B) The coupon (interest) rate and the prevailing market interest rate (yield).
(C) The date of issuance and the name of the registrar.
(D) The stock exchange listing status and the trading volume.

Ans :

(B) The coupon (interest) rate and the prevailing market interest rate (yield).
The price or value of a bond is determined by four key parameters. While face value and maturity are structural features, the economic value is driven by its fixed coupon rate and, most importantly, the prevailing market interest rate, also known as yield. The interplay between the

NODIA

(B) Minimum ₹10,000 and in multiples of ₹10,000.

To ensure accessibility while maintaining operational efficiency, a standard lot size is prescribed for investing in Government Securities. The minimum application size for a single investment is a face value of ₹10,000. Any investment above this amount must be made in multiples of ₹10,000, maintaining this standardized block size for all transactions.

May/June 2012

34. Match the auction term in List-I with its correct description in List-II.

List-I

P. Price-based auction
Q. Yield-based auction
R. Uniform price method
S. Multiple price method

List-II

1. All successful bidders are allotted at the single cut-off yield/price.
2. Successful bidders are allotted at their individually quoted yields/prices.
3. Coupon rate is pre-determined and bidders quote a price.
4. Coupon rate is determined based on the cut-off yield from the auction.

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-3, R-1, S-4

Ans :

(A) P-3, Q-4, R-1, S-2

A price-based auction involves a pre-determined coupon, with bidders quoting price (P-3). A yield-based auction determines the coupon from the bidding process (Q-4). The uniform price method allots to all successful bidders at one price (R-1), while the multiple price method allots at each bidder's respective price (S-2), creating a perfect match.

Oct/Nov 2023

35. The phenomenon where a winning bidder in a multiple-price auction may have bid a significantly higher price (or lower yield) than other successful bidders, potentially leading to a loss, is often termed as:

(A) The Winner's Blessing
(B) The Bidder's Dilemma
(C) The Winner's Curse
(D) The Auctioneer's Premium

Ans :

(C) The Winner's Curse

In a multiple-price auction, the highest successful bidder pays their bid price, which may be substantially higher than the auction's clearing price. This phenomenon is known as the 'winner's curse' because the winner may have overpaid relative to the market consensus, potentially leading to immediate mark-to-market losses when the security begins trading.

May/June 2017

36. In which year did the Reserve Bank of India introduce the Primary Dealers (PDs) system in the government securities market?

(A) 1991
(B) 2001
(C) 2005
(D) 1995

Ans :

(D) 1995

The Primary Dealers system was established by the RBI in 1995 as a crucial step towards developing a deep and liquid government securities market. The introduction of these specialized intermediaries was intended to strengthen the market infrastructure, improve the subscription in primary auctions, and enhance liquidity and turnover in the secondary market.

Oct/Nov 2015

37. What is the core function of a Primary Dealer (PD) in the government securities market?

(A) To provide independent credit ratings for all newly issued government and corporate securities.
(B) To act as the sole registrar and transfer agent for all dematerialised G-Secs.
(C) To buy securities directly from the RBI in auctions with the aim of reselling them to other buyers.
(D) To exclusively manage the foreign exchange reserves of the country on behalf of the central bank.

Ans :

(C) To buy securities directly from the RBI in auctions with the aim of reselling them to other buyers.

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CHAPTER 33
Foreign Exchange Markets

Oct/Nov 2016

1. According to the introductory information, what is the approximate value of daily flows in the global foreign exchange markets?
(A) USD 1.5 trillion
(B) USD 6.6 trillion
(C) USD 3.3 trillion
(D) USD 9.9 trillion

Ans :

(B) USD 6.6 trillion
The global foreign exchange markets are described as being exceptionally deep and wide. The current daily transaction flows are estimated to be around USD 6.6 trillion. This immense volume highlights the market's significance in the global financial system, involving numerous participants and operating without geographical boundaries, primarily as an over-the-counter (OTC) market.

May/June 2005

2. As per Section 2(n) of the Foreign Exchange Management Act (FEMA), 1999, which of the following is included in the definition of 'foreign exchange'?
(A) Drafts drawn in Indian currency but payable in any foreign currency
(B) Deposits, credits and balances payable only in Indian currency
(C) Bills of exchange drawn by banks in India and payable in Indian currency
(D) Travellers' cheques expressed and payable only in Indian currency

Ans :

(A) Drafts drawn in Indian currency but payable in any foreign currency
Section 2(n) of FEMA, 1999, defines 'foreign exchange' to include various instruments. Among these are drafts, travellers' cheques, letters of credit, or bills of exchange that are expressed or drawn in Indian currency but are payable in any foreign currency. This distinguishes them from purely domestic instruments and brings them under the purview of foreign exchange regulations.

Oct/Nov 2024

3. Which of the following is NOT included in the definition of 'foreign exchange' under Section 2(n) of FEMA, 1999?
(A) Balances payable in any foreign currency
(B) Drafts drawn by persons outside India, but payable in Indian currency
(C) Deposits and credits payable exclusively in Indian currency within India
(D) Letters of credit expressed in Indian currency but payable in any foreign currency

Ans :

(C) Deposits and credits payable exclusively in Indian currency within India
The definition of 'foreign exchange' under FEMA specifically covers foreign currency itself and certain instruments that involve a cross-currency element. It includes deposits payable in foreign currency, instruments in INR payable abroad, and instruments from abroad payable in INR. However, deposits and credits that are payable exclusively in Indian currency within India are considered domestic transactions.

May/June 2019

4. The global forex market spans a huge time zone of 19 hours between which two financial centers?
(A) Tokyo and New York
(B) London and Sydney
(C) Hong Kong and Chicago
(D) Auckland and San Francisco

Ans :

(D) Auckland and San Francisco
The physical spread of the forex market covers the entire globe, operating continuously across different time zones. It spans a 19-hour time zone from the market opening in Auckland, New Zealand, in the East to the market closing in San Francisco, USA, in the West. This continuous

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Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion correctly states the mandatory obligations of Primary Dealers. The reason logically explains the purpose behind these obligations. By ensuring committed bidding and underwriting support, PDs help the government successfully raise its required funds through auctions and contribute to the overall health and absorption capacity of the government securities market.

May/June 2008

42. Which of the following entities would be eligible to apply for a Primary Dealership license in India?
(A) A subsidiary of a scheduled commercial bank.
(B) A new technology startup with no financial services background.
(C) An individual high-net-worth investor.
(D) A cooperative society registered under state laws.

Ans :

(A) A subsidiary of a scheduled commercial bank.
The RBI's eligibility conditions for Primary Dealers are specific. One of the main categories of eligible applicants is a subsidiary of a scheduled commercial bank or an All India Financial Institution. Other entities like individuals, cooperative societies, or non-financial startups do not meet the specified structural and regulatory requirements for becoming a Primary Dealer.

Oct/Nov 2018

43. RBI guidelines stipulate that PDs should have minimum ratios for turnover, bidding, and underwriting. What is the primary objective of these stipulations?
(A) To limit the profits that Primary Dealers can make in any given financial quarter.
(B) To increase the tax revenue collected by the government from securities transaction taxes.
(C) To restrict the number of new entities that can qualify to become Primary Dealers each year.
(D) To ensure that PDs are active in supporting the trade in government securities.

Ans :

(D) To ensure that PDs are active in supporting the trade in government securities.
The RBI imposes these performance metrics to ensure that Primary Dealers fulfill their mandate as market makers. The bidding ratio ensures participation in primary auctions, the underwriting ratio ensures absorption of debt, and the turnover ratio ensures active participation in the secondary market. These measures collectively promote a liquid and robust government securities market.

May/June 2016

44. What is FIMMDA, and what is its primary role in the Indian financial markets?
(A) A government regulatory body that conducts statutory audits of all commercial banks.
(B) A Self-Regulatory Organisation (SRO) for the bond, money, and derivatives markets.
(C) A credit rating agency that specializes exclusively in rating corporate and municipal bonds.
(D) A dedicated stock exchange platform for the secondary market trading of government securities.

Ans :

(B) A Self-Regulatory Organisation (SRO) for the bond, money, and derivatives markets.
The Fixed Income Money Market and Derivatives Association of India (FIMMDA) is an association of banks, financial institutions, and Primary Dealers. It functions as a Self-Regulatory Organisation (SRO), playing a crucial role in the development and regulation of India's fixed income, money, and over-the-counter derivatives markets through standard-setting and best practices.

Oct/Nov 2009

45. Which of the following is a key function of FIMMDA?
(A) Conducting the bi-monthly monetary policy review on behalf of the Reserve Bank of India.
(B) Guaranteeing the central counterparty settlement of all corporate bond trades in the market.
(C) Functioning as the principal interface with regulators on issues impacting fixed income markets.
(D) Directly issuing Sovereign Gold Bonds on

NODIA

Primary Dealers are specialized entities licensed by the RBI to act as market makers in government securities. Their fundamental role is to purchase these securities directly from the RBI in primary auctions and then distribute them to a wider base of investors in the secondary market, thereby creating liquidity and depth.

May/June 2020

38. Which of the following is NOT a role or function of a Primary Dealer?

(A) Committing participation as principals in Government of India issues through mandatory bidding in auctions.

(B) Setting the benchmark repo rate for the monetary policy.

(C) Providing underwriting services to ensure full subscription of government security issuances.

(D) Offering firm two-way buy-sell/bid-ask quotes for T-Bills & dated securities to ensure liquidity.

Ans :

(B) Setting the benchmark repo rate for the monetary policy.

Primary Dealers have several key functions, including mandatory auction participation, underwriting government debt, and providing two-way quotes to ensure market liquidity. However, setting the benchmark policy rates like the repo rate is the exclusive domain of the Reserve Bank of India's Monetary Policy Committee and is not a function of Primary Dealers.

Oct/Nov 2008

39. To be eligible for a Primary Dealer license, what is the pre-requisite for an applicant company that is not a subsidiary of a bank or foreign entity?

(A) It must be a publicly listed company on a recognized stock exchange for a continuous minimum period of five years.

(B) It must employ a minimum of 100 full-time staff and maintain a physical branch presence in at least five different states.

(C) It must be formally incorporated under the Societies Registration Act, 1860, and operate strictly as a not-for-profit entity.

(D) It must register as a Non-Banking Financial Company (NBFC) for at least one year prior to application.

Ans :

(D) It must register as a Non-Banking Financial Company (NBFC) for at least one year prior to application.

The RBI has laid down specific eligibility criteria for entities seeking a Primary Dealer license. For a company incorporated under the Companies Act, 1956 (or subsequent Acts), which is not a subsidiary of a bank or a foreign entity, a key requirement is that it must be registered with the RBI as an NBFC for at least one year.

May/June 2006

40. What is the key distinction between a 'Bank PD' and a 'Stand-alone PD'?

(A) Bank PDs operate as a department of a bank, whereas Stand-alone PDs are separate NBFCs.

(B) Bank PDs can only trade in Treasury Bills, while Stand-alone PDs can trade in all G-Secs and derivatives.

(C) Bank PDs are primarily regulated by SEBI, while Stand-alone PDs are exclusively regulated by the RBI.

(D) Bank PDs are exempt from the mandatory requirement to participate in auctions, unlike Stand-alone PDs.

Ans :

(A) Bank PDs operate as a department of a bank, whereas Stand-alone PDs are separate NBFCs.

Primary Dealers are categorized based on their structural form. A 'Bank PD' is an internal department within a scheduled commercial bank that undertakes PD activities. In contrast, a 'Stand-alone PD' is an independent Non-Banking Financial Company (NBFC) whose exclusive business is dealing in government securities and related activities as a Primary Dealer.

Oct/Nov 2013

41. Assertion (A): Primary Dealers are required to commit participation in primary auctions and provide underwriting services.

Reason (R): This ensures successful completion of the government's borrowing program and supports market stability.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

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This initiative was a significant step towards democratizing the government securities market by providing a direct and straightforward platform for individual retail investors to invest in G-Secs, thereby broadening the investor base for government debt.

May/June 2012

50. Which of the following securities is NOT eligible for investment under the RBI Retail Direct Scheme (RDS)?
(A) Corporate Bonds
(B) Government of India Treasury Bills
(C) State Development Loans (SDLs)
(D) Sovereign Gold Bonds (SGBs)

Ans :

(A) Corporate Bonds
The RBI Retail Direct Scheme is specifically designed to provide retail investors with access to government-issued securities. The eligible instruments include Treasury Bills, dated Government of India securities, State Development Loans (SDLs), and Sovereign Gold Bonds (SGBs). Corporate bonds, being private debt instruments, are not part of this government-focused scheme.

Oct/Nov 2006

51. What is the name of the special account that a retail investor needs to open to participate in the RBI Retail Direct Scheme?
(A) Retail Investor Demat Account (RIDA)
(B) Government Securities Account (GSA)
(C) Retail Direct Gilt Account (RDG Account)
(D) Sovereign Investment Account (SIA)

Ans :

(C) Retail Direct Gilt Account (RDG Account)
A core feature of the RBI Retail Direct Scheme is the provision for individual investors to open and maintain a specific type of account directly with the RBI. This account, used for holding government securities, is officially named the 'Retail Direct Gilt Account' or RDG Account, distinguishing it from regular bank or demat accounts.

May/June 2019

52. According to the 'Eligibility of Investors' section for the RBI Retail Direct Scheme, which of the following is NOT a mandatory requirement for a resident retail investor?
(A) A Rupee savings bank account maintained in India.
(B) A Permanent Account Number (PAN).
(C) A valid email ID and registered mobile number.
(D) A credit card from a scheduled commercial bank.

Ans :

(D) A credit card from a scheduled commercial bank.
The scheme clearly lists the five specific requirements for a retail investor to be eligible. These are a Rupee savings bank account, a PAN card, an OVD for KYC, a valid email ID, and a registered mobile number. A credit card is not mentioned as a prerequisite for opening a Retail Direct Gilt Account.

Oct/Nov 2021

53. Mr. Sharma, a resident individual, wants to invest in a new Government of India dated security through the RBI Retail Direct Scheme. According to the scheme's rules for primary market participation, which of the following actions is he permitted to take?
(A) Submit multiple bids for the same security.
(B) Submit bids only on a competitive basis.
(C) Submit only one bid per security.
(D) Make payment for bids using a credit card.

Ans :

(C) Submit only one bid per security.
The RBI Retail Direct Scheme simplifies the bidding process for retail investors in the primary market. A key rule under the scheme is that an investor is permitted to submit only a single bid for each security being auctioned. This participation is on a non-competitive basis, ensuring a straightforward investment process without complex price quoting.

May/June 2021

54. How can a registered investor under the RBI Retail Direct Scheme access the secondary market to buy or sell government securities?
(A) By placing buy and sell orders through a registered stockbroker on the NSE or BSE platform.
(B) Through the online portal which provides access to the NDS-OM (odd lot segment/ RFQ).
(C) By physically visiting a designated branch of

NODIA

the RBI and submitting a trade request form.
(D) By calling a dedicated toll-free number during market hours for placing voice-based trades.

Ans :

(B) Through the online portal which provides access to the NDS-OM (odd lot segment/RFQ).
The RBI Retail Direct Scheme provides an end-to-end solution, including secondary market access. Registered investors can use the online portal to access the secondary market link. This connects them to the NDS-OM system's odd lot and Request for Quote (RFQ) segments, enabling them to buy or sell their government security holdings.

Oct/Nov 2010

55. What is the maximum number of nominees that can be appointed for a Retail Direct Gilt (RDG) Account?
(A) One
(B) Three
(C) Four
(D) Two

Ans :

(D) Two
The RBI Retail Direct Scheme provides a nomination facility to ensure smooth transmission of securities in the event of the account holder's demise. The scheme's provisions specify that an investor can fill and upload a nomination form, and they are permitted to appoint a maximum of two nominees for their Retail Direct Gilt Account.

May/June 2005

56. Which of the following services is available to an investor under the RBI Retail Direct Scheme?
(A) Facility to gift government securities to other Retail Direct Investors.
(B) A margin trading facility against securities held in the RDG account.
(C) An automated tax-loss harvesting service to optimize capital gains.
(D) Personalised portfolio advisory and management services directly from the RBI.

Ans :

(A) Facility to gift government securities to other Retail Direct Investors.
The scheme offers several value-added investor services through its online portal. Among these is the facility for 'Retail Direct Investors' to make gift transactions. This allows an investor to transfer their government securities holdings as a gift to another individual who is also a registered investor under the Retail Direct Scheme.

Oct/Nov 2022

57. Regarding the fees and charges associated with the RBI Retail Direct Scheme, which statement is correct?
(A) A high annual maintenance charge is levied by the RBI for holding the RDG Account.
(B) The aggregator or the RBI charges a commission on every bid submitted in primary auctions.
(C) Fees for payment gateway services, if applicable, are borne by the registered investor.
(D) No fees of any kind, including payment gateway charges, are applicable to the investor.

Ans :

(C) Fees for payment gateway services, if applicable, are borne by the registered investor.
While the RBI does not charge any fees for opening and maintaining the RDG account or for submitting primary auction bids, investors are responsible for certain ancillary costs. The scheme explicitly states that any fees related to the use of payment gateways for transferring funds will be applicable and must be borne by the investor.

May/June 2018

58. An NRI, eligible under FEMA to invest in G-Secs, wishes to open an RBI Retail Direct Gilt (RDG) Account jointly with her resident Indian father. Both individuals meet all the individual eligibility criteria. Is this permissible under the scheme?
(A) Yes, this is permissible as the scheme allows joint accounts with another eligible retail investor.
(B) No, RDG accounts can only be opened by resident individuals, not NRIs.
(C) No, RDG accounts are strictly individual accounts and cannot be opened on a joint basis.
(D) Yes, but only if the NRI is the second holder, as the first holder must be a resident.

Ans :

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(A) Yes, this is permissible as the scheme allows joint accounts with another eligible retail investor.

The scheme's eligibility rules state that Non-Resident retail investors who are eligible to invest in Government Securities under FEMA are also eligible for the scheme. Furthermore, the rules explicitly permit the RDG account to be opened either singly or jointly with another retail investor who also meets the necessary eligibility criteria.

Oct/Nov 2016

59. Consider the following two statements regarding the RBI Retail Direct Scheme:

Statement I: The scheme allows investors to pledge or create a lien on the securities held in their RDG Account.

Statement II: All grievances related to the 'Retail Direct' Scheme are handled and resolved by the Public Debt Office (PDO), Mumbai, RBI.

(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Neither Statement I nor Statement II is correct.

Ans :

(C) Both Statement I and Statement II are correct.

Both statements accurately describe features of the scheme. The scheme provides the flexibility for investors to use their securities as collateral by allowing for pledge or lien. It also specifies a clear grievance redressal mechanism, designating the Public Debt Office (PDO) in Mumbai as the responsible entity for handling all queries and complaints.

May/June 2014

60. How are funds from the sale of securities in the secondary market credited to an investor under the RBI Retail Direct Scheme?

(A) The funds are automatically held in the RDG account for future security purchases.
(B) The funds are credited to the investor's linked bank account on the day of settlement.
(C) A physical cheque is dispatched by post to the investor's registered mailing address.
(D) The funds can only be used to reinvest in Sovereign Gold Bonds via the portal.

Ans :

(B) The funds are credited to the investor's linked bank account on the day of settlement.

The process for sell transactions is designed to be seamless. When an investor sells securities through the NDS-OM portal, the funds realized from the sale are directly transferred and credited to the investor's savings bank account that was linked at the time of registration. This credit is processed on the settlement day of the trade.

Oct/Nov 2007

61. What is a primary objective of developing a robust corporate bond market in India?

(A) To increase the government's direct control over private sector financing and capital allocation.
(B) To eventually replace the equity market as the primary source of long-term capital for companies.
(C) To diffuse stress on banks by diversifying credit risk across various investors.
(D) To ensure all corporate funding is provided at a fixed, government-regulated interest rate.

Ans :

(C) To diffuse stress on banks by diversifying credit risk across various investors.

A key goal of fostering a corporate bond market is to reduce the over-reliance on the banking system for corporate funding. By enabling companies to borrow directly from a wide range of investors like mutual funds and insurance companies, the concentration of credit risk on bank balance sheets is reduced, leading to a more stable financial system.

May/June 2025

62. The text lists several examples of entities that issue bonds in the Indian corporate bond market. Which category includes issuers like HDFC, LIC Housing Finance Ltd, and PNB Housing Finance Ltd?

(A) Public Sector Enterprises
(B) All India Financial Institutions
(C) State Level Undertakings
(D) Housing Finance Companies (HFCs)

Ans :

(D) Housing Finance Companies (HFCs)

The chapter provides a categorized list of major issuers in the corporate bond market. The examples of HDFC, LIC Housing Finance Ltd, and PNB Housing Finance Ltd are explicitly mentioned under a specific category, which is titled 'Housing Finance Companies (HFCs)',

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behalf of the Government of India to retail investors.

Ans :

(C) Functioning as the principal interface with regulators on issues impacting fixed income markets.
One of FIMMDA's primary responsibilities is to act as a representative body for its members. It serves as the main point of contact and communication channel with regulators like the RBI. It presents the market's perspective on various issues, discusses regulatory changes, and works collaboratively to ensure the smooth and orderly functioning of the markets.

May/June 2023

46. FIMMDA is involved in several developmental activities. Which of the following best represents such an activity?
(A) Auditing the annual financial statements and compliance reports of its member institutions.
(B) Setting the official daily closing price for all traded government securities and T-bills.
(C) Prosecuting individuals and institutions found to be involved in market manipulation and fraud.
(D) Introducing benchmark rates and new derivatives instruments for market development.

Ans :

(D) Introducing benchmark rates and new derivatives instruments for market development.
FIMMDA plays a proactive role in market development. This includes undertaking activities like creating and publishing benchmark rates, which are critical for pricing financial instruments. It also works on the standardization and introduction of new products, such as various types of derivatives, to add depth and sophistication to the Indian financial markets.

Oct/Nov 2014

47. Which of the following statements about FIMMDA is incorrect?
(A) It has the statutory power to issue banking licenses.
(B) It is a voluntary self-regulating institution.
(C) Its members include Commercial Banks, Financial Institutions, and Primary Dealers.
(D) It functions as an arbitrator for disputes between member institutions.

Ans :

(A) It has the statutory power to issue banking licenses.
FIMMDA's role is that of a self-regulatory organization focused on market development, standard-setting, and arbitration among its members. The authority to issue banking licenses is a statutory power vested exclusively with the Reserve Bank of India and is not within the purview or function of an industry association like FIMMDA.

May/June 2007

48. The roles of FIMMDA include:
1. Devising standardised best market practices.
2. Functioning as an arbitrator for disputes between members.
3. Providing training and development support to dealers.
4. Conducting primary auctions of government securities.

Which of the above statements are correct?
(A) 1, 2, and 4 only
(B) 1, 3, and 4 only
(C) 1, 2, and 3 only
(D) 2, 3, and 4 only

Ans :

(C) 1, 2, and 3 only
FIMMDA's functions are focused on market development and conduct. It is responsible for creating standardized practices, offering arbitration services for member disputes, and providing training to market personnel. However, conducting the primary auctions of government securities is a sovereign function performed exclusively by the Reserve Bank of India, not by FIMMDA.

Oct/Nov 2025

49. When was the RBI Retail Direct Scheme (RDS) launched?
(A) 1st April, 2020
(B) 12th November, 2021
(C) 31st March, 2022
(D) 1st January, 2019

Ans :

(B) 12th November, 2021
The Reserve Bank of India launched the Retail Direct Scheme (RDS) on November 12, 2021.

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'BBB'. Which of the following statements is most likely to be true regarding their pricing?

(A) Bond X and Bond Y will trade at the same yield as they have the same maturity.
(B) Bond X will trade at a higher yield than Bond Y due to its higher rating.
(C) Bond Y will trade at a higher yield (wider credit spread) than Bond X.
(D) The credit rating will have no impact on the yield of the bonds.

Ans :

(C) Bond Y will trade at a higher yield (wider credit spread) than Bond X.
The credit rating directly reflects the perceived risk of default. A 'BBB' rating indicates a higher risk than an 'AAA' rating. To compensate for this higher risk, investors will demand a higher return. Therefore, Bond Y ('BBB') will have to offer a higher yield, or a wider credit spread over the government security benchmark, compared to the safer Bond X ('AAA').

May/June 2017

68. What is the nature of an Inter-Corporate Deposit (ICD)?

(A) A fully secured, collateralised loan between two corporate entities, backed by fixed assets.
(B) A mandatory deposit made by a corporate into a special non-interest-bearing account with the RBI.
(C) A government-guaranteed loan provided by a public sector bank to a private corporate.
(D) An unsecured, uncollateralised borrowing by corporates from other corporate entities.

Ans :

(D) An unsecured, uncollateralised borrowing by corporates from other corporate entities.
An Inter-Corporate Deposit (ICD) is a form of short-term borrowing in the corporate sector. It involves one corporate entity with surplus funds lending to another corporate in need of funds. A key characteristic of ICDs is that they are typically unsecured and uncollateralised, which means the lender bears significant credit risk, demanding a higher interest rate.

Oct/Nov 2005

69. How do the interest rates on Inter-Corporate Deposits (ICDs) generally compare to the rates in the Certificate of Deposit (CD) market?

(A) ICD rates are generally lower than CD rates.
(B) ICD rates are always exactly the same as CD rates.
(C) ICD rates are generally higher than CD rates.
(D) There is no established relationship between ICD and CD rates.

Ans :

(C) ICD rates are generally higher than CD rates.
ICDs are uncollateralised loans between corporates, carrying higher credit risk than a Certificate of Deposit issued by a bank. Even for top-rated corporates, the credit spreads are higher than for similarly rated banks. Consequently, the interest rates demanded and paid on ICDs are typically higher than the rates prevailing in the more secure CD market.

May/June 2020

70. What is the specific restriction placed on Primary Dealers (PDs) for borrowing in the Inter-Corporate Deposit (ICD) market?

(A) They are strictly prohibited from borrowing in the Inter-Corporate Deposit market under any circumstances or conditions.
(B) Their borrowing is restricted to 150% of Net Owned Funds with a minimum tenor of 7 days.
(C) Their borrowing is limited to sourcing funds only from other registered Primary Dealers or scheduled commercial banks.
(D) Their borrowing capacity is unlimited, on the condition that any such borrowing has a minimum tenor of one full year.

Ans :

(B) Their borrowing is restricted to 150% of Net Owned Funds with a minimum tenor of 7 days.
While Primary Dealers are active in many segments of the financial market, their participation in the ICD market is restricted. They are only permitted to be borrowers, not lenders. Furthermore, their borrowing under the ICD route is capped at 150% of their Net Owned Funds (NOF), and any such borrowing must have a minimum duration of 7 days.

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identifying them as a distinct and significant group of bond issuers in the market.

Oct/Nov 2019

63. How are corporate bonds in India typically priced?

(A) At a spread over the corresponding government security, depending on perceived risk.

(B) At a fixed price determined annually by the Reserve Bank of India for all issuers.

(C) At a mandatory discount to the corresponding government security, irrespective of risk.

(D) At the exact same yield as the corresponding government security to maintain market parity.

Ans :

(A) At a spread over the corresponding government security, depending on perceived risk.

Corporate bonds carry credit risk (default risk), which is absent in sovereign government securities. To compensate investors for this additional risk, corporate bonds are priced to offer a higher yield than a government security of a similar maturity. This additional yield is known as the credit spread, and its size depends on the issuer's creditworthiness.

May/June 2009

64. What is the minimum credit rating for a bond to be categorised as 'investment grade' in the Indian market?

(A) AAA

(B) BBB

(C) A

(D) BB

Ans :

(B) BBB

Credit rating agencies assess the default risk of bond issuers, assigning ratings from AAA (highest safety) to D (default). Bonds with ratings of BBB and above are generally considered to be 'investment grade'. This signifies that the issuer has an adequate capacity to meet its financial commitments, making the bond suitable for more conservative investors.

Oct/Nov 2011

65. Since June 2002, what has been the mandatory form for the issuance and holding of all bonds as per RBI regulations?

(A) Physical stock certificates printed exclusively on high-security, watermarked paper.

(B) Dematerialised form held in depositories like NSDL and CDSL.

(C) Physical bearer bonds that come with attached coupons which must be clipped and submitted to claim interest.

(D) Special gold-backed certificates that can only be issued by designated bullion banks.

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Ans :

(B) Dematerialised form held in depositories like NSDL and CDSL.

To enhance efficiency, security, and transparency in the bond market, regulations mandated a shift away from physical certificates. Since June 2002, all bonds must be issued and held in an electronic, or dematerialised, form. These electronic records are maintained in accounts with the two central depositories in India, NSDL and CDSL.

May/June 2010

66. What are STRIPS in the context of the bond market?

(A) Separate Trading of Registered Interest and Principal of Securities.

(B) Bonds that pay a variable or floating rate of interest.

(C) Bonds that can be converted into equity shares of the issuing company.

(D) A short-term promissory note issued by corporations.

Ans :

(A) Separate Trading of Registered Interest and Principal of Securities.

STRIPS are not new bonds but are created by separating a standard coupon-bearing bond into its individual components—each coupon payment and the final principal payment. Each of these components is then traded as a separate zero-coupon bond. This allows investors to invest in specific cash flows that match their desired maturity profile.

Oct/Nov 2024

67. A fund manager is comparing two corporate bonds, Bond X and Bond Y, both maturing in 10 years. Bond X is rated 'AAA' and Bond Y is rated

trading cycle ensures the market is active 24 hours a day.

Oct/Nov 2012

5. Which of the following is considered a major internationally traded currency in the forex market?
(A) Australian Dollar
(B) Indian Rupee
(C) Japanese Yen
(D) Swiss Franc

Ans :

(C) Japanese Yen
The forex market is composed of several major currencies that dominate global trading volumes. The primary internationally traded currencies include the US Dollar, Euro, Sterling Pound, and the Japanese Yen. Other currencies like the Canadian Dollar, Australian Dollar, Swiss Franc, and Indian Rupee are considered lesser traded regional currencies in comparison to the major ones.

May/June 2011

6. The modern inter-bank Foreign Exchange (Forex) Market, characterized by floating exchange rates, primarily took shape in which year?
(A) 1944
(B) 1971
(C) 1991
(D) 2000

Ans :

(B) 1971
The Foreign Exchange Market as an inter-bank market began to take its modern form in 1971. This was the period when global trade transitioned away from the Bretton Woods system of fixed exchange rates towards a system of floating exchange rates. In this new regime, currency values are determined primarily by market supply and demand forces.

Oct/Nov 2008

7. Which of the following are key instruments traded in the forex market?
(A) Equities, Bonds, and Mutual Funds
(B) Commercial Papers and Certificates of Deposit
(C) Treasury Bills and Government Securities
(D) Spot, Forward, Future, Swap, and Options

Ans :

(D) Spot, Forward, Future, Swap, and Options
The foreign exchange market facilitates trading through a variety of financial instruments. The most common instruments include Spot transactions for immediate delivery, and derivatives like Forwards, Futures, Swaps, and Options. These instruments allow participants to manage currency risk, speculate on price movements, and engage in complex trading strategies, contributing to the market's depth and liquidity.

May/June 2025

8. In what year did the Reserve Bank of India (RBI) first allow banks to undertake intra-day trading in foreign exchange?
(A) 1978
(B) 1975
(C) 1991
(D) 1992

Ans :

(A) 1978
A crucial step in the evolution of the Indian forex market was taken by the RBI in 1978. In that year, the central bank permitted commercial banks to engage in intra-day trading of foreign exchange. This policy required banks to maintain a "square" or "near square" position only by the close of business each day.

Oct/Nov 2017

9. During the period 1975-1992, how was the exchange rate of the Indian rupee determined?
(A) By a free float based on market demand and supply forces
(B) Pegged solely to the US Dollar under a fixed-rate regime
(C) Officially determined by the RBI based on a weighted basket of currencies
(D) Fixed against the Pound Sterling as per post-colonial arrangements

Ans :

(C) Officially determined by the RBI based on a weighted basket of currencies
Between 1975 and 1992, India did not have a market-determined exchange rate. The value of the Indian rupee was officially determined by the Reserve Bank of India. This determination was based on a weighted basket of currencies of India's major trading partners, and significant

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Hedge funds and other specialized investment entities primarily intervene in foreign exchange markets with speculative motives. Their main goal is to profit from anticipated movements in currency exchange rates. They employ various strategies to analyze market trends and execute trades aimed at obtaining high returns, which can sometimes involve significant risk-taking.

May/June 2018

20. Which of the following statements about market participants is correct?
Statement 1: Sovereign funds are public investment funds that invest proceeds from sources like business privatisations and natural resources in foreign currency assets.
Statement 2: Individuals operate in the forex market only for transactional hedging and are not involved in speculative activities.
(A) Only Statement 1 is correct.
(B) Only Statement 2 is correct.
(C) Both Statement 1 and Statement 2 are correct.
(D) Neither Statement 1 nor Statement 2 is correct.

Ans :

(A) Only Statement 1 is correct.
Statement 1 is correct as it accurately describes sovereign funds. Statement 2 is incorrect because individuals participate in the forex market for both transactional purposes, such as hedging, and for speculative purposes, aiming to profit from currency fluctuations. Therefore, their participation is not limited to just hedging activities, making the statement inaccurate.

Oct/Nov 2009

21. The London Inter Bank Offered Rate (LIBOR) was a benchmark rate calculated and published daily by which administration?
(A) The US Federal Reserve
(B) The Bank of England
(C) The ICE Benchmark Administration (IBA)
(D) The European Central Bank

Ans :

(C) The ICE Benchmark Administration (IBA)
LIBOR was a widely used global benchmark interest rate for several major currencies. The responsibility for its daily calculation and publication was held by the ICE Benchmark Administration (IBA). The rate-setting process eventually came under scrutiny due to rigging scandals, which led to the global transition away from LIBOR to new benchmark rates.

May/June 2023

22. The global financial system decided to phase out LIBOR and replace it with Alternate Reference Rates (ARRs) by which date?
(A) December 31, 2019
(B) December 31, 2021
(C) December 31, 2020
(D) December 31, 2022

Ans :

(B) December 31, 2021
Due to significant criticism, irregularities, and the 'LIBOR rigging' scandal that undermined its credibility, global regulators decided to discontinue the benchmark. The plan was to phase out LIBOR and transition all financial contracts to Alternate Reference Rates (ARRs) by the deadline of 31st December, 2021, to ensure a more robust and transaction-based reference rate system.

Oct/Nov 2018

23. Which of the following is NOT a key attribute that an Alternative Reference Rate (ARR) is expected to satisfy?
(A) It should provide a robust and accurate representation of interest rates in core money markets.
(B) It should offer reference rates for financial contracts that extend beyond the money market.
(C) It should serve as a benchmark for term lending and funding.
(D) It should be based on expert judgment rather than actual transactions.

Ans :

(D) It should be based on expert judgment rather than actual transactions.
A fundamental requirement for a credible ARR is that it must be based on observable transactions in liquid markets, making it robust and not susceptible to manipulation. Basing it on expert judgment was the primary flaw of LIBOR. Therefore, an ARR must be transaction-based, provide rates for various tenors, and serve as a reliable benchmark.

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has witnessed substantial growth. At present, the daily turnover has surged to around USD 70 billion, reflecting the market's increased depth and integration.

Oct/Nov 2021

15. In the context of the forex market, what does the characteristic of 'Liquidity' primarily signify?
(A) The ability to easily open or close large positions at current market prices.
(B) The ease of converting foreign currency into physical gold reserves, a process governed by central banks.
(C) The total count of currency pairs offered for trading by a specific broker or platform.
(D) The government-imposed legal limits on the quantity of foreign currency an individual or entity can trade.

Ans :

(A) The ability to easily open or close large positions at current market prices.
High liquidity is a key characteristic of the forex market, acting as a powerful magnet for investors. It refers to the enormous money supply available, which provides investors with the absolute freedom to open or close a trading position of virtually any size at the prevailing market quotation without significant price impact, ensuring efficient trade execution.

May/June 2024

16. Which characteristic of the forex market is defined by the absence of service charges, with costs being limited to the natural bid/ask market spread?
(A) Promptness
(B) Value
(C) Availability
(D) Margin

Ans :

(B) Value
The characteristic of 'Value' in the forex market refers to its cost structure. Traditionally, the market does not have explicit service charges or brokerage fees for transactions. The primary cost for participants is the inherent bid/ask spread, which is the difference between the buying (bid) and selling (ask) price of a currency pair.

Oct/Nov 2010

17. What is the typical credit 'leverage' or 'margin' normally available in the forex market, as determined by an agreement between a customer and a bank?
(A) 1:10
(B) 1:100
(C) 1:20
(D) 1:50

Ans :

(B) 1:100
The concept of 'margin' in the forex market refers to the credit leverage provided to traders. This leverage is determined by an agreement between the customer and their bank or brokerage house. It is normally equal to a ratio of 1:100, allowing traders to control a large position with a relatively small amount of capital.

May/June 2022

18. Which market participants are responsible for issuing their country's currency and intervening in markets to manage its value?
(A) Central banks
(B) Commercial banks
(C) Hedge funds
(D) Sovereign funds

Ans :

(A) Central banks
Central banks, such as the Reserve Bank of India (RBI), play a crucial role in the forex market. They are responsible for issuing their respective country's currency and controlling the money supply. A key function is to intervene in currency markets, either individually or in a coordinated manner, to influence their currency's value in line with monetary policy objectives.

Oct/Nov 2023

19. What is the primary objective of hedge funds and investment entities when they participate in the foreign exchange market?
(A) To facilitate international trade for corporate clients
(B) To manage a country's foreign currency reserves
(C) For speculative purposes or to obtain returns
(D) To provide liquidity to the inter-bank market

Ans :

(C) For speculative purposes or to obtain returns

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benchmarks for Indian Rupee interest rates and foreign exchange?
(A) Reserve Bank of India (RBI)
(B) Securities and Exchange Board of India (SEBI)
(C) Indian Banks' Association (IBA)
(D) Ministry of Finance

Ans :

(C) Indian Banks' Association (IBA)
In a significant collaborative effort in March 2018, FEDAI joined hands with Financial Benchmarks India Ltd (FBIL), the Fixed Income Money Market and Derivatives Association of India (FIMMDA), and the Indian Banks' Association (IBA). This collaboration was aimed at establishing and administering robust benchmarks for Indian Rupee interest rates and foreign exchange markets.

May/June 2021

30. The Foreign Exchange Regulation Act, 1973 (FERA) was replaced by which legislation?
(A) The Banking Regulation Act, 1949
(B) The Reserve Bank of India Act, 1934
(C) The Prevention of Money Laundering Act, 2002
(D) The Foreign Exchange Management Act, 1999 (FEMA)

Ans :

(D) The Foreign Exchange Management Act, 1999 (FEMA)
The restrictive Foreign Exchange Regulation Act, 1973 (FERA) was repealed and replaced by the more liberal Foreign Exchange Management Act, 1999 (FEMA). This shift in legislation was a key component of India's economic liberalization policy, moving the focus from strict regulation and control of foreign exchange to its management and facilitation of trade.

Oct/Nov 2022

31. The Foreign Exchange Management Act, 1999 (FEMA) came into effect on which date?
(A) June 1, 2000
(B) January 1, 1974
(C) July 3, 1991
(D) December 31, 2001

Ans :

(A) June 1, 2000
Following its enactment to replace the earlier FERA, the Foreign Exchange Management Act, 1999 (FEMA) was brought into force with effect from June 1, 2000. This act was designed to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and promoting the orderly development of the forex market.

May/June 2010

32. What is the fundamental shift in approach from FERA, 1973 to FEMA, 1999?
(A) From management to strict regulation
(B) From regulation to management
(C) From facilitation to control
(D) From management to prohibition

Ans :

(B) From regulation to management
The transition from the Foreign Exchange Regulation Act (FERA) to the Foreign Exchange Management Act (FEMA) marked a significant philosophical shift. While FERA was a stringent law focused on the conservation and control of foreign exchange, FEMA adopted a more liberal approach with an emphasis on the management of foreign exchange and the facilitation of external trade.

Oct/Nov 2011

33. Under the FEMA framework, who is empowered to make 'Rules' and 'Regulations' respectively?
(A) Rules by RBI; Regulations by Central Government
(B) Rules by Central Government; Regulations by RBI
(C) Both Rules and Regulations by RBI
(D) Both Rules and Regulations by the Central Government

Ans :

(B) Rules by Central Government; Regulations by RBI
The legal framework of FEMA involves a division of legislative power. The Central Government is empowered to frame the 'Rules' under the Act, which typically cover broader policy aspects. The Reserve Bank of India (RBI), as the primary regulator of foreign exchange, is empowered to issue 'Regulations' that detail the operational and procedural aspects of forex transactions.

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May/June 2007

24. Based on the provided table, which Alternate Reference Rate (ARR) is distinct from the others in terms of the scope of its counterparties?
(A) SARON
(B) SOFR
(C) SONIA
(D) TONAR

Ans :

(A) SARON
The Swiss Average Rate Overnight (SARON) is unique among the listed ARRs because its transactions involve 'Banks only' as counterparties. In contrast, the ARRs for the USA (SOFR), UK (SONIA), EU (€STR), and Japan (TONAR) all include both 'Banks and non-banks' as their counterparties.

Oct/Nov 2025

25. As per the table on ARRs, which of the following pairs of reference rates are both based on secured transactions?
(A) SOFR and SONIA
(B) €STR and TONAR
(C) SOFR and SARON
(D) SONIA and SARON

Ans :

(C) SOFR and SARON
A rate is based on secured (collateralized) lending if indicated in its description. The Secured Overnight Financing Rate (SOFR) for the USA is 'Yes' (secured) and the Swiss Average Rate Overnight (SARON) for Switzerland is also 'Yes' (secured). The other rates listed (SONIA, €STR, TONAR) are unsecured.

May/June 2012

26. In the Indian context, what is MIFOR, a domestic benchmark that was based on LIBOR?
(A) Mumbai Interbank Forward Offered Rate
(B) Mumbai Interbank Final Offered Rate
(C) Monetary Institute Forward Offered Rate
(D) Mumbai Inter-Financial Overnight Rate

Ans :

(A) Mumbai Interbank Forward Offered Rate
In India, one of the key domestic benchmarks linked to LIBOR was the Mumbai Interbank Forward Offered Rate (MIFOR). It was used for pricing various derivative contracts. With the cessation of LIBOR, contracts referencing MIFOR also required a transition to new benchmarks, forming a significant part of India's LIBOR transition roadmap managed by the RBI.

Oct/Nov 2014

27. When was the Foreign Exchange Dealers' Association of India (FEDAI) established?
(A) 1947
(B) 1978
(C) 1991
(D) 1958

Ans :

(D) 1958
The Foreign Exchange Dealers' Association of India (FEDAI) was established in 1958. It is an association of banks that are authorized to deal in foreign exchange in India. FEDAI plays a crucial role as a self-regulating organisation (SRO) by setting rules for forex business, training personnel, and advising member banks on various operational matters.

May/June 2016

28. Which of the following is a primary function of FEDAI?
(A) Directly executing the country's monetary policy decisions, such as setting interest rates.
(B) Framing rules and guidelines for inter-bank forex business.
(C) Overseeing and regulating all trading activities on the national stock exchanges.
(D) Performing the statutory audit of the Reserve Bank of India's annual financial statements.

Ans :

(B) Framing rules and guidelines for inter-bank forex business.
FEDAI's core mandate includes framing the rules and guidelines that govern the day-to-day operations of the inter-bank foreign exchange market in India. These rules cover various aspects, including transaction charges, settlement procedures, and codes of conduct. This function helps ensure an orderly and efficient market environment for all authorized dealers who are its members.

Oct/Nov 2006

29. In March 2018, FEDAI collaborated with FBIL, FIMMDA, and which other organization to set

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restrictions were in place on current account transactions during this period.

May/June 2014

10. The introduction of the Liberalised Exchange Rate Management System (LERMS) in March 1992 was based on the recommendations of which committee?
(A) Rangarajan Committee
(B) Sodhani Committee
(C) Tarapore Committee
(D) Narasimham Committee

Ans :

(A) Rangarajan Committee
Following the initiation of economic reforms in 1991, the High-Level Committee on Balance of Payments, chaired by Dr. C. Rangarajan, made key recommendations. Based on these, the Liberalised Exchange Rate Management System (LERMS) was introduced in March 1992. This system instituted a dual exchange rate mechanism as a transitional step towards a market-based regime.

Oct/Nov 2005

11. What significant event in the Indian forex market occurred on March 1, 1993?
(A) Introduction of the dual exchange rate mechanism (LERMS)
(B) The two-step downward adjustment of the rupee
(C) Attainment of capital account convertibility
(D) The unification of the dual exchange rates (modified LERMS)

Ans :

(D) The unification of the dual exchange rates (modified LERMS)
Effective from March 1, 1993, the dual exchange rates under LERMS were unified. This event, also known as modified LERMS, marked the end of the dual-rate system and the beginning of a market-determined exchange rate regime for the Indian rupee. The exchange rate was henceforth determined by demand and supply forces in the forex market.

May/June 2020

12. In which year did India achieve current account convertibility by accepting Article VIII of the Articles of Agreement of the International Monetary Fund?
(A) 1991
(B) 1994
(C) 1993
(D) 1997

Ans :

(B) 1994
A major milestone in India's economic liberalization was the achievement of current account convertibility. This was formally accomplished in August 1994 when India accepted the obligations under Article VIII of the Articles of Agreement of the IMF, which generally prohibits restrictions on payments and transfers for current international transactions, ensuring a more open and integrated economy.

NODIA

Oct/Nov 2015

13. Which expert group, appointed in November 1994, provided far-reaching recommendations to develop, widen, and deepen the forex market in India?
(A) Rangarajan Committee
(B) Tarapore Committee
(C) Sodhani Committee
(D) Malegam Committee

Ans :

(C) Sodhani Committee
The appointment of the Expert Group on Foreign Exchange in November 1994, popularly known as the Sodhani Committee, was a landmark in the development of India's forex market. The group's detailed study and subsequent recommendations were instrumental in shaping policies that helped develop, widen, and deepen the market, leading to greater freedom for participants.

May/June 2013

14. What was the approximate daily turnover in the Indian forex market in the year 2000, which has since grown to around USD 70 billion?
(A) USD 1 billion
(B) USD 15 billion
(C) USD 25 billion
(D) USD 6 billion

Ans :

(D) USD 6 billion
The reforms and development initiatives in the Indian forex market led to a significant increase in trading volumes. The daily turnover, which was approximately USD 6 billion in the year 2000,

May/June 2009

34. Which of the following is NOT listed as an authority governing the enforcement of FEMA?
(A) Ministry of Corporate Affairs
(B) Directorate of Enforcement, Ministry of Finance
(C) Foreign Exchange Department, RBI
(D) Capital Market Division, Department of Economic Affairs

Ans :

(A) Ministry of Corporate Affairs
The enforcement of FEMA is governed by several specific authorities. These include the Foreign Exchange Department of the RBI, the Directorate of Enforcement, the Capital Market Division, and the Foreign Trade Division, both under the Department of Economic Affairs, Ministry of Finance. The Ministry of Corporate Affairs is not listed as a primary enforcement authority for FEMA.

Oct/Nov 2019

35. Under FEMA, a person aggrieved by an order made by an Assistant Director of Enforcement can prefer an appeal to whom?
(A) The Appellate Tribunal
(B) The Director of Enforcement
(C) The Special Director (Appeals)
(D) The High Court

Ans :

(C) The Special Director (Appeals)
FEMA provides a structured appellate process. For a person who is aggrieved by an adjudication order passed by an officer at the level of an Assistant Director of Enforcement or a Deputy Director of Enforcement, the first level of appeal is to the Special Director (Appeals). This ensures a hierarchical review of enforcement actions.

May/June 2008

36. What is the role of "Authorised Persons" as envisaged by FEMA?
(A) To set foreign exchange policy for the country
(B) To adjudicate penalties for contraventions of FEMA
(C) To print and issue foreign currency notes
(D) To deal in foreign exchange as per directions issued by the RBI

Ans :

(D) To deal in foreign exchange as per directions issued by the RBI
Since the RBI cannot directly handle all foreign exchange transactions, FEMA empowers it to authorize certain entities as "Authorised Persons" (APs). These APs, which include banks and money changers, are permitted to deal in foreign exchange. They must operate according to the specific directions and guidelines issued by the RBI, often through AP (DIR) Circulars.

Oct/Nov 2013

37. Which section of FEMA, 1999 prohibits any person from dealing in or transferring foreign exchange except through an authorised person?
(A) Section 4
(B) Section 6
(C) Section 3
(D) Section 8

Ans :

(C) Section 3
Section 3 is a cornerstone provision of the Foreign Exchange Management Act, 1999. It establishes the fundamental principle that all dealings in foreign exchange or foreign securities must be conducted through an Authorised Person, unless a general or special permission is granted by the Reserve Bank of India. This ensures regulatory oversight over forex transactions.

May/June 2015

38. Which section of FEMA, 1999, casts the responsibility on persons resident in India to realise and repatriate foreign exchange due to them?
(A) Section 6
(B) Section 8
(C) Section 7
(D) Section 10

Ans :

(B) Section 8
Section 8 of FEMA deals with the duty of repatriation of foreign exchange. It mandates that any person resident in India who has an amount of foreign exchange due or accrued in their favor must take all reasonable steps to realize and repatriate it to India within the time and manner specified by the Reserve Bank of India.

NODIA

Oct/Nov 2020

39. According to Section 2(c) of FEMA, 1999, the definition of an 'Authorised person' includes which of the following?

I. Authorised dealer
II. Money changer
III. Offshore banking unit
IV. Any other person authorised to deal in foreign exchange

(A) I and II only
(B) I, II, and III only
(C) II, III, and IV only
(D) I, II, III, and IV

Ans :

(D) I, II, III, and IV
Section 2(c) of FEMA provides a comprehensive definition of an "Authorised Person". It explicitly includes an authorised dealer, a money changer, and an offshore banking unit. Additionally, it has a catch-all provision for any other person who is for the time being authorised by the RBI to deal in foreign exchange or foreign securities.

May/June 2006

40. The establishment of the Directorate of Enforcement and its powers to investigate violations are covered under which sections of FEMA, 1999?

(A) Sections 36 and 37
(B) Sections 10 and 12
(C) Sections 13 and 15
(D) Sections 3 and 4

Ans :

(A) Sections 36 and 37
Sections 36 and 37 of the Foreign Exchange Management Act, 1999, are foundational for the enforcement machinery. These sections pertain to the establishment of the Directorate of Enforcement and grant it the necessary powers to investigate any potential violation of the provisions of the Act, or any rule, regulation, notification, direction, or order issued under it.

Oct/Nov 2007

41. A 'Retail User' wants to convert USD 25,000 to INR for personal use via the FX-Retail platform. Based on the platform's features, what should this user expect?

(A) They will be charged a standard percentage-based commission by their bank for using the platform.
(B) They are strictly limited to completing only one foreign exchange transaction per business day.
(C) They can place an order for anonymous, automatic matching with a dealer's quote.
(D) The platform is exclusively designed for large corporate clients and is not accessible to individuals.

Ans :

(C) They can place an order for anonymous, automatic matching with a dealer's quote.
The FX-Retail platform is designed to provide retail users with direct access to the market. A key feature is that bids and offers from retail clients and Authorised Dealers are matched anonymously and automatically. This enhances transparency and competition, leading to better pricing for the customer. The platform is available to individuals and has no daily transaction limit.

May/June 2017

42. An Indian Small and Medium Enterprise (SME) uses the FX-Retail platform to make a payment of USD 60,000 to an overseas supplier. What will be the implication regarding transaction charges for the SME?

(A) Transaction charges will be applied because the total value exceeds USD 50,000.
(B) No transaction charges will be applied as the amount is for a business transaction.
(C) A flat fee of USD 100 will be automatically deducted by the platform.
(D) The transaction is not permitted as the platform limit is USD 50,000 per day.

Ans :

(A) Transaction charges will be applied because the total value exceeds USD 50,000.
The FX-Retail platform has a specific rule regarding transaction charges. While there are no charges levied for transactions totaling less than or equal to USD 50,000 in a single day, charges are applied if the total transaction value exceeds this threshold. Since the SME's transaction is for USD 60,000, it will be subject to these charges.

Oct/Nov 2016

43. The FX-Retail platform was rolled out by which entity on August 05, 2019?

(A) Reserve Bank of India (RBI)
(B) National Payments Corporation of India (NPCI)

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(C) Foreign Exchange Dealers' Association of India (FEDAI)
(D) Clearing Corporation of India Limited (CCIL)

Ans :

(D) Clearing Corporation of India Limited (CCIL)
The FX-Retail platform, a significant tool for providing retail clients direct market access, was developed and rolled out by the Clearing Corporation of India Limited (CCIL). The launch took place on August 05, 2019, following the policy announcements by the RBI to improve pricing outcomes and transparency for retail participants in the forex market.

May/June 2005

44. The FX-Retail platform allows trading in CASH, TOM, SPOT, and FORWARD instruments for the USD/INR pair up to what maximum period?
(A) 3 months
(B) 13 months
(C) 6 months
(D) 12 months

Ans :

(B) 13 months
The platform is designed to cater to various needs of retail customers. It offers trading in multiple instrument types, including CASH, TOM (Tomorrow), and SPOT settlements. For longer-term hedging requirements, it also supports FORWARD contracts in the USD/INR currency pair for a period extending up to 13 months, providing significant flexibility to users.

Oct/Nov 2024

45. Which of the following statements regarding the FX-Retail platform is incorrect?
(A) It is a web-based order matching trading platform for bank customers.
(B) A customer must register through their bank to get credentials from CCIL.
(C) There is a strict ceiling of five transactions per customer per day.
(D) It allows customers to choose any bank for converting their foreign exchange.

Ans :

(C) There is a strict ceiling of five transactions per customer per day.
One of the salient features of the FX-Retail platform is the flexibility it offers to its users. There is explicitly no ceiling on the number of transactions a customer can perform during a single day. This allows users to manage their forex requirements, regardless of size or frequency, without being constrained by an arbitrary transaction limit.

May/June 2019

46. The U.S. Dollar Index (USDX) measures the value of the US Dollar relative to a basket of how many major world currencies?
(A) Four
(B) Five
(C) Eight
(D) Six

Ans :

(D) Six
The U.S. Dollar Index (USDX) is a widely followed benchmark for the international value of the US dollar. It measures the dollar's strength by comparing it against a weighted basket of six major world currencies. These currencies belong to some of the most significant trading partners of the United States, providing a broad gauge of the dollar's performance.

Oct/Nov 2012

47. Which currency holds the largest weight, at 57.6%, in the basket used to calculate the U.S. Dollar Index (USDX)?
(A) Euro (EUR)
(B) Japanese Yen (JPY)
(C) British Pound (GBP)
(D) Swiss Franc (CHF)

Ans :

(A) Euro (EUR)
The composition of the USDX basket is weighted to reflect the significance of each trading partner. The Euro (EUR) is by far the largest component, making up 57.6% of the index's value. This substantial weighting signifies the immense volume of trade and financial flows between the United States and the Eurozone countries.

May/June 2011

48. Consider the following statements about the U.S. Dollar Index (USDX):
Statement 1: The index started in 1973 with a base value of 100.
Statement 2: The index reached its all-time low point in February 1985.

NODIA

Which of the statements is/are correct?
(A) Only Statement 1 is correct.
(B) Only Statement 2 is correct.
(C) Both Statement 1 and Statement 2 are correct.
(D) Neither Statement 1 nor Statement 2 is correct.

Ans :

(A) Only Statement 1 is correct.
Statement 1 is correct; the USDX was initiated in 1973, shortly after the dissolution of the Bretton Woods Agreement, with a base value of 100. Statement 2 is incorrect; the index reached its all-time high point (164.72) in February 1985 and its low point (70.698) in March 2008, not the other way around.

Oct/Nov 2008

49. A negotiable financial instrument traded on a local stock exchange but representing an equity security issued by a foreign company is known as a:
(A) Foreign Currency Convertible Bond (FCCB)
(B) Depository Receipt (DR)
(C) Exchange Traded Fund (ETF)
(D) Participatory Note (P-Note)

Ans :

(B) Depository Receipt (DR)
A Depository Receipt (DR) is the specific financial instrument that fits this description. It is created to allow investors in one country to invest in the shares of a company based in another country without having to transact on the foreign stock exchange directly. It is a transferable instrument that represents ownership of the underlying foreign shares.

May/June 2025

50. A Depository Receipt issued by a US bank, denominated in US Dollars, and listed on a US Stock Exchange like NYSE or NASDAQ is specifically called a(n):
(A) American Depository Receipt (ADR)
(B) Global Depository Receipt (GDR)
(C) International Depository Receipt (IDR)
(D) European Depository Receipt (EDR)

Ans :

(A) American Depository Receipt (ADR)
The term American Depository Receipt (ADR) is used specifically for Depository Receipts that are issued by a depository bank in the United States. These instruments are denominated in US Dollars and are traded on American stock exchanges such as the New York Stock Exchange (NYSE) or NASDAQ, making foreign equities accessible to US investors.

Oct/Nov 2017

51. What is a Global Depository Receipt (GDR)?
(A) A DR issued and managed by an Indian bank that is only permitted to be traded within India's borders.
(B) A DR that is, by definition, denominated in any major global currency except for the US Dollar.
(C) A DR listed on a non-US exchange, often in Europe, and denominated in USD or Euros.
(D) A sovereign-only DR exclusively held by governments and central banks for reserve management purposes.

Ans :

(C) A DR listed on a non-US exchange, often in Europe, and denominated in USD or Euros.
Global Depository Receipts (GDRs) are similar to ADRs but are typically offered to investors in multiple countries. They are commonly listed on European stock exchanges, such as the London Stock Exchange or the Luxembourg Stock Exchange. GDRs provide companies with access to a global investor base and are often denominated in US Dollars or Euros.

May/June 2014

52. In the process of creating an ADR for an Indian company, what is the role of the local custodian bank in India?
(A) It issues the ADRs directly to the US investors.
(B) It sets the price of the ADR in US dollars.
(C) It trades the newly created ADRs on the Indian stock exchange.
(D) It receives the domestic shares and verifies their delivery to the US depository bank.

Ans :

(D) It receives the domestic shares and verifies their delivery to the US depository bank.
The local custodian bank, located in the company's home country (India, in this case), acts as an agent for the US depository bank. Its crucial role is to take physical or dematerialized possession of the company's domestic shares. It then verifies this delivery and informs the US

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depository bank, which can then proceed to issue the ADRs.

Oct/Nov 2005

53. An Indian company's shares trade at ₹2,200 on the local stock exchange. A US depository bank issues ADRs for this company where 1 ADR represents 2 underlying shares. Assuming an exchange rate of US $1 = ₹110, what would be the initial price of one ADR in US dollars?
(A) $10
(B) $20
(C) $40
(D) $50

Ans :

(C) $40
First, find the price of one share in USD:
₹2,200 / ₹110 per USD = 20.
Since one ADR represents two underlying shares, the price of one ADR is calculated as the price of two shares in USD.
Therefore, the ADR price is 2 shares ×20 share = 40.
This is the initial price before trading begins.

May/June 2020

54. In an ADR issuance scenario, each ADR purchased is worth 10 shares of the underlying company, and the price of one share is approximately US$ 15. Based on this information, what is the approximate initial worth of a single ADR?
(A) US$ 1.50
(B) US$ 150
(C) US$ 15
(D) US$ 75

Ans :

(B) US$ 150
The scenario explicitly states that one ADR is worth 10 shares of Company A. The value of a single share is given as approximately US$ 15. Therefore, to find the initial worth of one ADR, we multiply the number of shares it represents by the price per share: US$ 10 shares × US$ 15 share = US$150.

Oct/Nov 2015

55. After an ADR is issued and begins trading on the NYSE, what determines its subsequent price?
(A) The fixed initial price as permanently set by the depository bank.
(B) The real-time exchange rate fluctuation between the INR and USD only.
(C) The price determined on a daily basis by the Indian company's board of directors.
(D) Supply and demand factors in the market, similar to ordinary shares.

Ans :

(D) Supply and demand factors in the market, similar to ordinary shares.
Once an ADR is issued, its initial price is based on the underlying share price and the ADR ratio. However, after it starts trading freely on the stock exchange, its subsequent price is determined by the forces of market supply and demand. Just like any other publicly traded security, its value will fluctuate based on investor sentiment and company performance.

May/June 2013

56. Which of the following is a key privilege that an ADR investor typically holds?
(A) Holding rights similar to direct shareholders, including voting and receiving dividends.
(B) The direct legal right to participate in the daily operational management of the foreign company.
(C) A guarantee of complete immunity from all fluctuations related to foreign exchange and market risk.
(D) A contractual right to convert the ADR back to the foreign currency at a predetermined fixed rate.

Ans :

(A) Holding rights similar to direct shareholders, including voting and receiving dividends.
An ADR represents ownership in a foreign company, and the holder is entitled to certain rights similar to those of a direct shareholder. These typically include the right to vote on company matters (though the depository bank often facilitates this) and the right to receive cash dividends, which are paid out in US dollars.

Oct/Nov 2021

57. Which of the following is a key benefit for a company that issues a Depository Receipt (DR)?
(A) Guaranteed increase in its domestic share price.
(B) Reduction in its tax liability in the home country.
(C) Boosting the company's prestige in its local market.

NODIA

Ans :

(A) Transmit important price signals
Integrated and efficient financial markets act as a crucial channel for central banks and other regulatory authorities to transmit important price signals, most notably changes in policy interest rates. This transmission mechanism allows monetary policy actions to influence interest rates across the entire financial system, thereby affecting economic activity, investment, and savings decisions throughout the economy.

May/June 2019

9. Why is market integration considered important for a country's financial sector development?
(A) It restricts the adoption of modern technology by creating prohibitive entry barriers for fintech innovators.
(B) It reduces competition and efficiency by encouraging monopolistic practices among established intermediaries.
(C) It helps a country's financial sector emerge as a regional or international hub.
(D) It discourages financial innovation, preventing the creation of new cost-effective intermediation services.

Ans :

(C) It helps a country's financial sector emerge as a regional or international hub.
A well-integrated financial market is a prerequisite for a country's financial sector to achieve a higher standing. It enhances efficiency, deepens liquidity, and promotes stability, all of which are necessary conditions for a financial sector to evolve into a prominent international or regional financial hub, attracting global capital and participants.

Oct/Nov 2006

10. Which of the following is NOT listed as an importance of the interconnectedness of financial markets?
(A) Increasing the scope for sustained arbitrage opportunities
(B) Promoting domestic savings and investment
(C) Enhancing competition and efficiency of intermediaries
(D) Inducing market discipline and informational efficiency

Ans :

(A) Increasing the scope for sustained arbitrage opportunities
A key function and benefit of market integration is the reduction or elimination of arbitrage opportunities. If markets are interconnected and efficient, price discrepancies between segments are quickly arbitraged away, making the markets more perfect. Therefore, increasing the scope for arbitrage is contrary to the purpose and outcome of market integration, which aims to reduce such imperfections.

May/June 2021

11. What causes heterogeneity in financial markets, necessitating their integration?
(A) Uniformity in risk profiles and liquidity across all market instruments
(B) All market participants being identical in nature and function
(C) All financial markets being exclusively national in character
(D) The fact that markets are not uniform and possess different features

Ans :

(D) The fact that markets are not uniform and possess different features
The very basis for needing market integration stems from the heterogeneity of financial markets. These markets possess diverse and non-uniform features, including differences in participants, risk profiles, liquidity, geographical scope (national vs. international), and instrument types. If all markets were homogenous, the need and rationale for integrating them would be significantly diminished.

Oct/Nov 2010

12. Based on geographical scope, how can financial markets be differentiated?
(A) Some are liquid while others are illiquid, affecting transaction speed.
(B) Some are national in character while others are international.
(C) Some deal in saving instruments while others focus on credit instruments.
(D) Some involve low-risk instruments while others feature high-risk ones.

Ans :

(B) Some are national in character while others are international.

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was introduced in March 1992. IV. The Sodhani Committee was appointed in November 1994. II. FERA was replaced by FEMA, which came into effect on June 1, 2000. This sequence tracks the key milestones in the evolution of India's forex market.

May/June 2018

62. Match the market participant (List-I) with their primary role in the forex market (List-II).

List-I (Participant)

P. Central Banks
Q. Hedge Funds
R. Brokers
S. Multinationals

List-II (Role)

1. Act as intermediaries between financial institutions for a fee.
2. Engage in markets for commercial or investment purposes related to business operations.
3. Intervene to manage currency value as per monetary policy.
4. Intervene with speculative purposes to obtain returns.

Code:

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-4, R-1, S-2

P. Central Banks intervene to manage currency value (3). Q. Hedge Funds are primarily speculative (4). R. Brokers act as fee-based intermediaries (1). S. Multinationals engage in forex markets for commercial purposes like international trade payments or investments (2). This matching correctly aligns each participant with their described function in the market.

Oct/Nov 2009

63. Identify the incorrect statement regarding the characteristics of the forex market.

(A) Most transactions involve high service charges and commission fees.
(B) High liquidity allows investors to open or close positions of any size.
(C) The market operates on a 24-hour schedule, offering promptness in trading.
(D) The possibility to trade round-the-clock provides high availability.

Ans :

(A) Most transactions involve high service charges and commission fees.

This statement is incorrect. A key characteristic of the forex market, referred to as 'Value', is that it traditionally has no explicit service charges or commissions. The primary cost to the trader is the bid-ask spread, which is the difference between the buying and selling price of a currency pair, making it a relatively low-cost market.

May/June 2023

64. Match the Alternate Reference Rate (ARR) in List-I with its corresponding country/region in List-II.

List-I (ARR)

P. SOFR
Q. SONIA
R. €STR
S. SARON

List-II (Country/Region)

1. United Kingdom
2. Switzerland
3. USA
4. European Union

Code:

(A) P-1, Q-3, R-4, S-2
(B) P-3, Q-1, R-4, S-2
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(B) P-3, Q-1, R-4, S-2

The correct matches are: P. SOFR (Secured Overnight Financing Rate) is the ARR for the USA (3). Q. SONIA (Sterling Overnight Index Average) is for the United Kingdom (1). R. €STR (Euro Short-Term Rate) is for the European Union (4). S. SARON (Swiss Average Rate Overnight) is for Switzerland (2).

Oct/Nov 2018

65. Consider the following statements regarding the Foreign Exchange Dealers' Association of India (FEDAI):

1. FEDAI is a statutory body established by an Act of Parliament.
2. It is a self-regulating organisation (SRO) whose members are banks authorised to deal in forex.
3. One of its key functions is the accreditation

NODIA

CHAPTER 34

Interconnectedness of Markets and Market Dynamics

May/June 2016

1. What is the phenomenon where upheavals in markets in one part of the world send ripples to other distant parts, as seen during the Global Financial Crisis of 2008-2009?
(A) Market segmentation
(B) Contagion effect
(C) Economic decoupling
(D) Regional isolation

Ans :

(B) Contagion effect
The "contagion effect" describes the spread of economic disturbances or crises from one market or country to others. This happens due to the interconnectedness of global financial systems, where events in one region, like the 2008-2009 financial crisis, can have a significant and resonating impact on markets worldwide, a phenomenon also referred to as the "coupling" of economies.

Oct/Nov 2009

2. What is the primary outcome of the process of financial market integration?
(A) Convergence of risk-adjusted returns on assets of similar maturity
(B) Divergence of risk-adjusted returns on assets of similar maturity
(C) Increased arbitrage opportunities between different market segments
(D) Strict separation of participants across various market segments

Ans :

(A) Convergence of risk-adjusted returns on assets of similar maturity
Financial market integration is a process that unifies markets, leading to a convergence of risk-adjusted returns on assets that have a similar maturity period. This convergence occurs because integration allows for unimpeded access for participants across different market segments, which reduces price discrepancies and aligns returns based on underlying risk and maturity profiles across the integrated markets.

May/June 2023

3. Which of the following is NOT a primary reason for the growing interconnectedness of financial markets?
(A) Increased mobility of capital across national boundaries
(B) Harmonisation of prudential regulations in line with international best practices
(C) A shift in monetary policy focus towards quantitative controls
(D) Technological developments in electronic payment and communication systems

Ans :

(C) A shift in monetary policy focus towards quantitative controls
The shift in monetary policy from quantitative controls to price-based instruments, such as short-term policy interest rates, is a reason for interconnectedness. The statement suggests a shift towards quantitative controls, which is the opposite of the actual trend described. Increased capital mobility, harmonised regulations, and technological advancements are all key drivers of market integration.

Oct/Nov 2018

4. How have technological developments in electronic payment and communication systems contributed to market integration?
(A) By increasing the time lag for cross-border fund transfers
(B) By creating more opportunities for long-term arbitrage
(C) By restricting the cross-border mobility of funds to specific corridors
(D) By substantially reducing arbitrage opportunities across financial centres

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applicability of FEMA. Reason (R) correctly states the overall objective of the Act. However, the general objective of the Act (R) does not directly explain the specific reason for its extraterritorial application (A). The application is to ensure comprehensive regulatory coverage over entities controlled by Indian residents.

May/June 2016

70. Which of the following statements about Depository Receipts (DRs) is incorrect?

(A) A single DR can represent any number of shares, including fractional shares.

(B) An investor holding a DR is completely insulated from foreign exchange risk.

(C) The rights of the DR holder, such as voting rights, are stated on the DR certificate.

(D) DRs help a company increase its share liquidity and access an international shareholder base.

Ans :

(B) An investor holding a DR is completely insulated from foreign exchange risk.

This statement is incorrect. While DRs offer many benefits, they do not eliminate foreign exchange risk. The value of the underlying shares is denominated in a foreign currency, so if that currency weakens against the investor's home currency (e.g., the US dollar for an ADR), the value of the DR investment will decrease, even if the share price remains stable.

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(D) Elimination of all regulatory compliance.

Ans :

(C) Boosting the company's prestige in its local market.
Issuing DRs provides several benefits for a company, including boosting its prestige and image within its own local market. This is because being traded internationally on a major exchange is often seen as a mark of quality, governance, and global ambition, which enhances its domestic reputation.

May/June 2024

58. What is a primary advantage for an investor who purchases a Depository Receipt (DR)?
(A) They can trade a foreign security under familiar local market settlement conditions.
(B) They receive a guaranteed higher rate of return compared to standard domestic equities.
(C) All foreign exchange risk associated with the underlying investment is completely eliminated.
(D) They are given preferential voting rights over the company's domestic shareholders.

Ans :

(A) They can trade a foreign security under familiar local market settlement conditions.
A key convenience for investors is that by purchasing a DR, they can invest in a foreign company but conduct the transaction within their own domestic market. This means they benefit from familiar trading, settlement, and clearance procedures, which simplifies the process and avoids the complexities of transacting directly in a foreign jurisdiction.

Oct/Nov 2010

59. How does issuing a Depository Receipt (DR) primarily help a company attract foreign investment?
(A) It offers a higher dividend yield than domestic shares.
(B) It guarantees the foreign investor protection from market volatility.
(C) It legally requires foreign investors to hold the investment for a minimum period.
(D) It allows foreign investors to bypass entry barriers into the company's local market.

Ans :

(D) It allows foreign investors to bypass entry barriers into the company's local market.
Issuing a DR is a strategic way for a company to access foreign capital. It works by allowing foreign investors to invest in the company's equity through the DR, which trades on their local exchange. This effectively bypasses potential obstacles or restrictions they might face when trying to invest directly in the company's home market.

May/June 2022

60. Which of the following is identified as a risk that a DR investor will still have to bear?
(A) Liquidity risk from trading on a major exchange.
(B) Foreign exchange risk from uncertainties in emerging economies.
(C) Settlement risk under familiar clearance conditions.
(D) The risk of the DR being delisted from the foreign exchange.

Ans :

(B) Foreign exchange risk from uncertainties in emerging economies.
While DRs simplify investing in foreign equities, they do not eliminate all associated risks. An investor will still bear foreign exchange risk. This risk arises because the value of the underlying shares is in a foreign currency, and fluctuations in the exchange rate can impact the US dollar value of the investment and dividends.

Oct/Nov 2023

61. Arrange the following legislative/regulatory events in the Indian forex market in chronological order, from earliest to latest:
I. Introduction of LERMS (dual exchange rate)
II. Replacement of FERA, 1973 with FEMA, 1999
III. RBI allows banks to undertake intra-day trading
IV. Appointment of the Sodhani Committee
(A) III, I, IV, II
(B) I, III, II, IV
(C) III, IV, I, II
(D) I, II, IV, III

Ans :

(A) III, I, IV, II
The correct chronological sequence is: III. RBI allowed intra-day trading in 1978. I. LERMS

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Ans :

(D) By substantially reducing arbitrage opportunities across financial centres

Advances in technology, particularly in electronic payment and communication systems, have significantly enhanced the speed and efficiency of transactions. This has drastically reduced the scope for arbitrage opportunities that previously existed due to price differences across financial centres. As a result, these technological developments have greatly aided the cross-border mobility of funds and strengthened market integration.

May/June 2007

5. What change in the operating framework of monetary policy has supported market integration?

(A) A shift from price-based instruments to quantitative controls
(B) An increased emphasis on fixed exchange rate regimes
(C) A shift from quantitative controls to price-based instruments like policy interest rates
(D) The imposition of stricter, non-harmonised prudential regulations

Ans :

(C) A shift from quantitative controls to price-based instruments like policy interest rates

A significant driver of market integration has been the change in monetary policy frameworks. Central banks have moved away from using quantitative controls towards employing price-based instruments, such as the short-term policy interest rate. This shift influences the entire term structure of interest rates, fostering better linkages and integration across different segments of the financial market.

Oct/Nov 2025

6. How does the harmonisation of prudential regulations contribute to the market integration process?

(A) By creating diverse and conflicting standards for financial products
(B) By enabling competitive pricing of products and strengthening integration
(C) By increasing entry barriers for new participants in the market
(D) By discouraging the adoption of international best practices

Ans :

(B) By enabling competitive pricing of products and strengthening integration

When countries align their prudential regulations with international best practices, it creates a more level playing field for financial intermediaries. This harmonisation enables more competitive pricing of financial products and services, as firms operate under similar regulatory frameworks. Consequently, this process removes certain frictions and strengthens the integration of financial markets both domestically and across borders.

May/June 2012

7. The increased reliance of nations on the savings of other nations to supplement domestic savings has directly led to which phenomenon aiding market integration?

(A) Reduced capital mobility across national boundaries due to protectionist policies
(B) Stagnation of cross-border investment flows as domestic savings rates rise
(C) Greater emphasis on exclusively using domestic savings for local investment
(D) Increased capital mobility across national boundaries

Ans :

(D) Increased capital mobility across national boundaries

As nations increasingly look beyond their borders to supplement their domestic savings pools, capital has become significantly more mobile. This reliance on foreign savings for domestic investment necessitates open financial channels, directly promoting the cross-border flow of funds. This enhanced capital mobility is a fundamental reason for the growing interconnectedness and integration of global financial markets.

Oct/Nov 2014

8. One of the key benefits of interconnected financial markets is that they serve as a conduit for authorities to do what?

(A) Transmit important price signals
(B) Impose quantitative restrictions on credit allocation
(C) Directly control the allocation of private domestic savings
(D) Isolate the domestic economy from all global shocks

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of forex brokers.
Which of the above statements is/are correct?
(A) 1 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(B) 2 and 3 only
Statement 1 is incorrect; FEDAI is an association of banks, not a statutory body created by Parliament. Statement 2 is correct; it is a self-regulating organisation (SRO). Statement 3 is also correct; among its various functions, FEDAI is responsible for the accreditation of foreign exchange brokers, ensuring they meet certain standards.

May/June 2007

66. Identify the correct pair of the FEMA, 1999 Section and its corresponding provision.
(A) Section 8: Casts responsibility to realise and repatriate foreign exchange.
(B) Section 4: Deals with capital account transactions.
(C) Section 7: Prohibits dealings in forex except through an authorised person.
(D) Section 3: Deals with export of goods and services.

Ans :

(A) Section 8: Casts responsibility to realise and repatriate foreign exchange.
Section 8 correctly corresponds to the provision that places the responsibility on residents of India to take steps to realize and repatriate any foreign exchange that is due to them. The other pairs are mismatched: Section 3 prohibits dealings without an AP, Section 4 restrains holding foreign assets, and Section 7 deals with exports.

Oct/Nov 2025

67. A multinational corporation based in Europe wants to raise capital from US investors by listing on the NYSE but finds a direct listing complex. What is the most appropriate financial instrument for the corporation to use?
(A) Global Depository Receipt (GDR) listed on the London Stock Exchange.
(B) Indian Depository Receipt (IDR) listed on the Bombay Stock Exchange.
(C) American Depository Receipt (ADR) listed on the NYSE.
(D) Direct issuance of shares to US investors.

Ans :

(C) American Depository Receipt (ADR) listed on the NYSE.
The corporation's goal is to raise capital specifically from US investors and list on a US exchange (NYSE). The American Depository Receipt (ADR) is the precise instrument designed for this purpose. It allows a foreign company to be traded on a US stock exchange, making it accessible to US investors under their familiar market framework.

May/June 2012

68. Which currency has the second-highest weight in the U.S. Dollar Index (USDX) after the Euro?
(A) British Pound (GBP)
(B) Canadian Dollar (CAD)
(C) Swiss Franc (CHF)
(D) Japanese Yen (JPY)

Ans :

(D) Japanese Yen (JPY)
The Euro has the largest weight (57.6%). Among the remaining currencies in the index, the Japanese Yen (JPY) has a weight of 13.6%. This is higher than the weights of the British Pound (11.9%), Canadian Dollar (9.1%), Swedish Krona (4.2%), and Swiss Franc (3.6%), making the JPY the second-largest component of the index.

Oct/Nov 2014

69. Assertion (A): The Foreign Exchange Management Act (FEMA), 1999, applies to branches and offices outside India if they are owned or controlled by a person resident in India.
Reason (R): FEMA was enacted to consolidate and amend the law relating to foreign exchange and to promote the orderly development of the forex market in India.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
Both statements are individually true. Assertion (A) correctly states the extraterritorial

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One dimension of market heterogeneity is the geographical scope of transactions. Some market segments, like domestic money and credit markets, are primarily national, involving participants within a country's borders. Others, such as foreign exchange markets and stock markets with cross-listings, are international in nature, facilitating cross-border transactions and participation by foreign institutional investors.

May/June 2005

13. In terms of depth and liquidity, how do money market instruments generally compare to capital market bonds?

(A) Money market instruments are less liquid than capital market bonds.
(B) Both have identical levels of depth and liquidity.
(C) Money market instruments are more liquid than capital market bonds.
(D) Liquidity is not a differentiating factor between these markets.

Ans :

(C) Money market instruments are more liquid than capital market bonds.
Financial markets exhibit heterogeneity in their depth and liquidity. Money market instruments, which are short-term debt securities, are generally characterized by high liquidity, meaning they can be bought or sold quickly without a significant impact on their price. In contrast, bonds in the capital markets, which have longer maturities, are typically considered less liquid.

Oct/Nov 2022

14. Which statement correctly identifies a point of heterogeneity in financial markets based on the risk profile of instruments?

(A) All government and corporate bonds carry identical default and credit risks.
(B) Government bonds involve default and credit risks, while corporate bonds do not.
(C) The risk profile of an instrument does not influence an investor's decisions.
(D) Corporate bonds are relatively riskier than government bonds.

Ans :

(D) Corporate bonds are relatively riskier than government bonds.
Financial markets are differentiated by the risk profiles of the instruments traded. Government bonds are considered to have minimal to no default or credit risk, as they are backed by the sovereign. In contrast, corporate bonds are relatively riskier because their repayment depends on the financial health and performance of the issuing company, creating a trade-off for investors.

May/June 2018

15. An important objective of financial sector reforms in India has been to integrate various market segments. What is a primary goal of this integration?

(A) To reduce arbitrage opportunities and achieve higher efficiency
(B) To increase arbitrage opportunities for financial intermediaries
(C) To reduce the efficiency of monetary policy transmission
(D) To create divergence in the pricing of financial products

Ans :

(A) To reduce arbitrage opportunities and achieve higher efficiency
A central objective of India's financial reforms has been to integrate the different segments of the financial market. This integration aims to create a more unified and efficient system by reducing arbitrage opportunities that arise from price discrepancies. The ultimate goal is to achieve a higher level of operational efficiency among intermediaries and enhance the economy's overall financial stability.

Oct/Nov 2016

16. In the domestic sphere, how has India pursued the integration of its financial markets?

(A) By increasing restrictions on capital flows and cross-segment transactions
(B) By easing restrictions on flows through rationalisation of capital controls
(C) By discouraging competition and financial deepening through regulation
(D) By increasing transaction costs and reducing market liquidity

Ans :

(B) By easing restrictions on flows through rationalisation of capital controls
Domestically, India has promoted market integration through several measures. These include strengthening competition, deepening

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the market with innovative instruments, and lowering transaction costs. A key strategy has been the easing of restrictions on financial flows and transactions by rationalising capital and exchange controls, which facilitates smoother movement of funds between different market segments.

May/June 2014

17. At which three different levels can financial market integration be observed?
(A) Primary, secondary, and tertiary
(B) Domestic, global, and regional
(C) Micro, meso, and macro
(D) Institutional, corporate, and retail

Ans :

(B) Domestic, global, and regional
The process of financial market integration is analyzed at three distinct levels. Domestic integration refers to the linkages between different market segments within a single country. Global integration involves opening up domestic markets to the free cross-border flow of capital. Regional integration occurs due to economic and financial ties within a specific geographical region.

Oct/Nov 2007

18. What is the defining characteristic of domestic financial integration?
(A) Horizontal linkages of various segments reflecting portfolio diversification
(B) The complete removal of all barriers to the cross-border flow of capital
(C) Economic ties between a specific region and a major international financial centre
(D) The formal adoption of a single currency across multiple sovereign nations

Ans :

(A) Horizontal linkages of various segments reflecting portfolio diversification
Domestic financial integration is characterized by the horizontal linkages connecting various market segments within a country. This integration reflects the portfolio diversification strategies of savers, investors, and intermediaries who operate across these different segments. A key feature is that market interest rates tend to revolve around a common basic reference rate, promoting price consistency.

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May/June 2025

19. What is a key feature of the basic reference rate in a domestically integrated market?
(A) It is the price of a long-term, high-risk financial instrument.
(B) It is determined in a non-competitive and illiquid market.
(C) It is often used by central banks to gauge the tightness of monetary policy.
(D) It is completely independent of the formal financial system's liquidity.

Ans :

(C) It is often used by central banks to gauge the tightness of monetary policy.
In a domestically integrated market, interest rates often revolve around a basic reference rate, which is the price of a short-term, low-risk instrument in a competitive market. This rate provides basic liquidity to the financial system. Because of its sensitivity and central role, central banks frequently use this rate as an indicator to gauge monetary policy tightness.

Oct/Nov 2019

20. Global financial integration primarily refers to what process?
(A) The harmonization of domestic tax laws exclusively, without regard to international standards.
(B) The restriction of movement of people and technology across borders to protect domestic industries.
(C) The establishment of separate, non-recognized financial standards for each individual nation.
(D) Opening domestic markets to the free cross-border movement of capital and financial services.

Ans :

(D) Opening domestic markets to the free cross-border movement of capital and financial services.
Global financial integration is defined by the opening of a country's domestic markets and institutions to the international system. A core element of this process is the removal of barriers like capital controls and withholding taxes to allow for the free cross-border flow of capital and financial services, connecting the domestic economy with global financial networks.

May/June 2009

21. Which type of integration is promoted through the harmonisation of national standards and laws, either by adopting common minimum standards or through mutual recognition?
(A) Domestic integration
(B) Regional integration
(C) Global integration
(D) Sectoral integration

Ans :

(C) Global integration
A deeper dimension of global integration involves aligning national rules and regulations to facilitate seamless cross-border activity. This is promoted by harmonising national standards and laws, which can be achieved either by all countries adopting a set of commonly agreed minimum standards or through the mutual recognition of each other's standards, reducing regulatory friction.

Oct/Nov 2011

22. Regional financial integration is often driven by what factor?
(A) Complete economic and financial isolation from major financial centres
(B) Ties between a given region and the major financial centre serving it
(C) The tendency of market makers to disperse across wide geographical areas
(D) The imposition of strict barriers to bilateral trade and investment flows

Ans :

(B) Ties between a given region and the major financial centre serving it
Regional financial integration is often a result of strong economic and financial ties that develop between countries within a specific geographical region and a major financial centre that serves that region. Network externalities and the tendency of market makers to concentrate in certain hubs make integration at a regional level a natural and often more achievable process.

May/June 2010

23. India's participation in which of the following is cited as an example of its involvement in regional financial initiatives?
(A) The European Central Bank
(B) The North American Free Trade Agreement
(C) The Bank for International Settlements
(D) The Asian Clearing Union

Ans :

(D) The Asian Clearing Union
The text explicitly mentions that India has been a participant in a number of regional financial initiatives. It provides the Asian Clearing Union (ACU) as a specific example of one such initiative. The ACU is a regional payment arrangement designed to facilitate transactions and promote trade among its member countries in Asia.

Oct/Nov 2024

24. What is the primary function of the Asian Clearing Union (ACU)?
(A) To provide a multilateral platform for settling intra-regional payments on a net basis
(B) To act as a global lender of last resort for non-member central banks
(C) To set a common monetary policy and interest rate for all member countries
(D) To issue a single common currency for the entire Asian region

Ans :

(A) To provide a multilateral platform for settling intra-regional payments on a net basis
The Asian Clearing Union (ACU) is a payment arrangement where participant central banks settle payments for intra-regional transactions. This is done on a net multilateral basis, meaning debits and credits are offset periodically. This mechanism helps to economize the use of foreign exchange reserves and reduce transfer costs for eligible transactions among member nations.

May/June 2017

25. The Asian Clearing Union (ACU) was established in December 1974 at the initiative of which organization?
(A) The World Bank
(B) The International Monetary Fund (IMF)
(C) The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)
(D) The Asian Development Bank (ADB)

Ans :

(C) The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)
The establishment of the Asian Clearing Union (ACU) was an initiative of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). It was formally established

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(B) High and increasing flexibility in the domestic exchange rate
(C) A perfectly competitive and frictionless banking space
(D) The overall quality of the regulatory environment

Ans :

(D) The overall quality of the regulatory environment
The text identifies several factors that affect the speed and completeness of monetary policy transmission to bank lending rates. These include the overall quality of the regulatory environment, the extent of dollarisation, financial development depth, asset quality, banking competition, exchange rate flexibility, and the inflation environment. An inefficient regulatory environment can impede this pass-through mechanism.

May/June 2010

44. What is the observed relationship between the yields on government bonds and corporate bonds in the Indian market?
(A) A strong negative correlation
(B) A fair amount of positive correlation
(C) No discernible correlation
(D) An inverse and volatile correlation

Ans :

(B) A fair amount of positive correlation
There is a natural and observable positive correlation between the yields of government bonds and corporate bonds. Government bond yields reflect the benchmark interest rate scenario and outlook for the economy. Consequently, the cost of corporate borrowing through the issuance of bonds will follow the prevailing interest rate situation, causing corporate bond yields to move in tandem with government bond yields.

Oct/Nov 2014

45. Figure 34.2 "Repo Rate Versus G-Sec Yield" chart, which shows the movement of the India 10-year G-sec yield and the Repo rate from 2007 to 2015. Based on the general trend visible in Figure 34.2, what can be concluded about the relationship between the Repo Rate and the 10-year G-Sec yield?
(A) The G-Sec yield moves in the opposite direction of the Repo Rate.
(B) The G-Sec yield remains constant regardless of changes in the Repo Rate.
(C) The G-Sec yield and the Repo Rate generally move in the same direction.
(D) There is no clear relationship between the two rates.

Ans :

(C) The G-Sec yield and the Repo Rate generally move in the same direction.
The chart visually demonstrates a strong positive correlation between the RBI's Repo Rate and the yield on 10-year Government Securities (G-Sec). When the Repo Rate is increased or decreased, the G-Sec yield tends to follow a similar trajectory. This indicates that the central bank's policy rate is a key determinant of long-term interest rates in the economy.

May/June 2021

46. Which of the following is cited as an impediment that can delay and dilute the pass-through of monetary policy in India's credit market?
(A) The complete absence of statutory pre-emptions on bank resources
(B) High flexibility in the repricing of term deposits by banks
(C) A significant reduction in fiscal dominance over monetary policy
(D) The co-existence of a large informal finance sector

Ans :

(D) The co-existence of a large informal finance sector
The text lists several factors that act as impediments to the smooth transmission of monetary policy. These include administered interest rates, rigidities in repricing deposits, interest rate subventions, and fiscal dominance. The co-existence of a large informal finance sector, which operates outside the purview of the formal banking system, also delays and dilutes the policy pass-through.

Oct/Nov 2008

47. Despite several impediments, the policy repo rate in India continues to condition the evolution of which key lending rate?
(A) The Weighted Average Lending Rates (WALR)
(B) The inter-bank call money rate only
(C) The informal sector lending rates
(D) The foreign currency lending rates exclusively

NODIA

(B) The inherently pro-cyclical nature of long-term foreign direct investment flows
(C) The deliberate reduction in the depth and breadth of domestic financial markets
(D) The benefits of international risk sharing for consumption smoothing

Ans :

(D) The benefits of international risk sharing for consumption smoothing
A primary argument for financial openness is that it allows for international risk sharing. This enables a country to smooth its consumption patterns by borrowing from abroad during bad times and lending during good times. This benefit, along with the positive impact of capital flows on investment and growth, is a core consideration supporting global financial integration.

May/June 2024

31. What is a major risk or cost associated with financial market integration, as evidenced by the South East Asian crisis?
(A) Contagion
(B) Market stagnation
(C) Deflationary pressure
(D) Reduced total factor productivity

Ans :

(A) Contagion
A major risk that accompanies financial market integration is contagion. This was clearly demonstrated during the South East Asian crisis, where problems in one market segment or country were rapidly transmitted to others. This risk of systemic instability arises because increased integration makes markets more interconnected, allowing financial shocks to spread quickly across segments and borders.

Oct/Nov 2008

32. Which of the following describes the 'real channel' of contagion?
(A) Contagious withdrawals due to a lack of accurate and timely market information
(B) Potential for 'domino effects' through real exposures on participants in other segments
(C) Spread of crisis due to irrational herding behaviour in international capital flows
(D) Transmission of shocks purely through exchange rate fluctuations and currency markets

Ans :

(B) Potential for 'domino effects' through real exposures on participants in other segments
The 'real channel' of contagion relates to the tangible financial and economic links between market participants. It describes the potential for a 'domino effect,' where the failure or distress of an entity creates losses for its creditors and counterparties in other segments or markets. These direct exposures can cause a chain reaction of failures.

May/June 2006

33. What was the primary reason for largely keeping the recommendations of the S. S. Tarapore Committee on Capital Account Convertibility on hold during the 1997 South East Asian currency crisis?
(A) The committee's recommendations were deemed too conservative for the Indian economy.
(B) The risk of contagion and potential for systemic instability.
(C) The domestic markets were already fully integrated and open to global capital.
(D) There was a complete lack of international investor interest in the Indian market.

Ans :

(B) The risk of contagion and potential for systemic instability.
The experience of the 1997 South East Asian crisis highlighted the significant risks of contagion associated with open capital accounts. The crisis demonstrated how problems in one market could rapidly spread and cause systemic instability. This cautionary tale was the primary reason why the recommendations for fuller Capital Account Convertibility, proposed by the S. S. Tarapore Committee, were largely deferred.

Oct/Nov 2017

34. Which of the following is NOT considered a potential cost of globalisation and financial integration?
(A) The counter-cyclical nature of short-term capital flows
(B) High degree of concentration and misallocation of capital flows
(C) A high degree of volatility of capital flows related to herding effects
(D) Risks associated with foreign bank

NODIA

penetration

Ans :

(A) The counter-cyclical nature of short-term capital flows
One of the potential costs or risks of financial integration is the pro-cyclical nature of short-term capital flows, meaning capital flows in during economic booms and flows out during downturns, exacerbating economic cycles. The statement suggests a counter-cyclical nature, which would be a benefit (stabilizing the economy), not a cost. Other listed costs are valid.

May/June 2008

35. According to most studies, which form of capital flow tends to be less volatile compared to others?
(A) Short-term debt flows
(B) Portfolio equity flows
(C) Direct investment
(D) Foreign bank loans

Ans :

(C) Direct investment
Among the various forms of capital flows, direct investment (such as Foreign Direct Investment or FDI) is generally found to be the least volatile. Unlike short-term portfolio flows which can be reversed quickly, direct investments are typically long-term commitments in physical assets or substantial equity stakes, making them more stable and less prone to abrupt reversals.

Oct/Nov 2013

36. Under a pegged exchange rate regime, how does the volatility of capital flows typically manifest?
(A) In large fluctuations in the exchange rate
(B) In stable and predictable interest rates
(C) In a reduction of the current account deficit
(D) In large fluctuations in official reserves

Ans :

(D) In large fluctuations in official reserves
In a pegged exchange rate regime, the central bank is committed to maintaining a fixed value for its currency. To achieve this, it must intervene in the forex market. When there are large capital inflows or outflows, the central bank must buy or sell foreign currency, which leads to large fluctuations in its official foreign exchange reserves.

May/June 2015

37. In India, what provides the first leg of monetary policy transmission?
(A) The credit market
(B) The capital market
(C) The money market
(D) The forex market

Ans :

(C) The money market
The money market in India is considered the initial and most direct channel for monetary policy transmission. Changes in the central bank's policy rates instantaneously impact the uncollateralised weighted average call money market rate (WACR). From there, the effect spreads to other money market rates and subsequently to other segments of the financial system.

Oct/Nov 2012

38. What is the central rate in the Indian money market, around which all other money market rates evolve?
(A) The 10-year G-Sec yield
(B) The uncollateralised weighted average call money market rate (WACR)
(C) The Weighted Average Lending Rate (WALR)
(D) The base rate of commercial banks

Ans :

(B) The uncollateralised weighted average call money market rate (WACR)
The uncollateralised weighted average call money market rate (WACR) acts as the operational target and anchor for the Indian money market. Following a policy rate change by the RBI, the WACR adjusts almost instantaneously. Subsequently, all other money market rates, such as those for commercial paper and certificates of deposit, tend to evolve around the WACR with varying spreads.

May/June 2011

39. What is the primary reason that the Indian money market is considered to be essentially insulated from external shocks?
(A) Proliferation of non-banking sources of finance
(B) High degree of dollarisation in the economy
(C) Complete dependence on international capital flows
(D) Active liquidity management by the RBI

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Ans :

(D) Active liquidity management by the RBI
The Indian money market is largely shielded from external shocks primarily due to the active and constant liquidity management operations conducted by the Reserve Bank of India (RBI). The RBI uses various tools to absorb or inject liquidity as needed, ensuring that domestic factors like government cash balances and currency demand are the primary drivers of money market conditions.

Oct/Nov 2020

40. In India, the spread between the WACR and the policy rate tends to widen around the end of the financial year. What is the reason for this?
(A) Banks' balance sheet adjustments increasing the demand for liquidity
(B) A structural decrease in the demand for storing liquidity by banks
(C) A sudden surge in foreign institutional investment into the equity market
(D) A sharp and unexpected appreciation of the domestic currency

Ans :

(A) Banks' balance sheet adjustments increasing the demand for liquidity
Towards the end of the financial year (in March), banks in India undertake balance sheet adjustments to meet regulatory and reporting requirements. This process typically increases their demand for holding liquidity. The heightened demand for funds in the money market pushes the Weighted Average Call Rate (WACR) upwards, causing its spread over the policy repo rate to widen.

May/June 2022

41. "In India, the money market provides the first leg of monetary policy transmission – policy rate changes impact the uncollateralised weighted average call money market rate (WACR) instantaneously and, in turn, all other money market rates evolve around the WACR, with varying spreads. Typically, the money market is insulated from external shocks, essentially due to active liquidity management by the RBI, and is driven by domestic factors..."
Based on the excerpt, what is the primary driver of the Indian money market?
(A) External shocks from global financial markets
(B) Fluctuations in international commodity prices
(C) Domestic factors managed by RBI's liquidity operations
(D) The performance of the domestic capital market

Ans :

(C) Domestic factors managed by RBI's liquidity operations
The provided text explicitly states that the Indian money market is driven by domestic factors, such as government balances and currency demand. It further clarifies that the market is essentially insulated from external shocks. This insulation is attributed to the active liquidity management undertaken by the Reserve Bank of India, which maintains control over domestic liquidity conditions.

Oct/Nov 2023

42. Despite the proliferation of non-banking finance sources, why do bank lending rates remain important in India's monetary policy pass-through?
(A) Because India's financial system is still bank-dominated
(B) Because India's financial system is now capital-market-dominated
(C) Because non-banking sources are completely immune to policy rate changes
(D) Because bank lending rates are set independently by the government

Ans :

(A) Because India's financial system is still bank-dominated
Although corporates now have access to various non-banking sources of finance, India's financial system remains predominantly bank-dominated. Banks are the primary intermediaries for credit in the economy. Therefore, the lending rates set by banks continue to be a crucial channel through which changes in the central bank's policy rates are transmitted to the broader economy.

Oct/Nov 2019

43. Which of the following is identified as a factor that can impinge upon the transmission of policy rates to bank lending rates in India?
(A) A sustained decrease in the level of dollarisation in the economy

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in December 1974 to help countries in the region that were facing settlement difficulties, largely due to resource constraints, by creating a more efficient payment mechanism.

Oct/Nov 2005

26. Which of the following is NOT a member of the Asian Clearing Union (ACU)?
(A) China
(B) Bangladesh
(C) Iran
(D) Myanmar

Ans :

(A) China
The members of the Asian Clearing Union (ACU) listed are Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan, and Sri Lanka. China is not mentioned as a member of this regional payment arrangement. The union consists of a specific group of South and West Asian countries aiming to facilitate regional trade and payments.

May/June 2020

27. Consider the following statements regarding the reasons for the formation of a clearing union like the ACU:
1. It helps conserve foreign exchange in intra-group transactions until the settlement date.
2. It can promote trade liberalisation initially among the member countries.
3. It can help prepare the ground for broader regional economic and financial co-operation.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(D) 1, 2 and 3
All three statements are correct reasons for forming a clearing union. Such unions allow for the use of national currencies for transactions, conserving foreign exchange reserves. They create a framework that can encourage initial steps towards trade liberalisation among members. Ultimately, this cooperation serves as a foundation for deeper regional economic and financial collaboration.

Oct/Nov 2015

28. According to the hierarchy of financial integration mentioned, which level of integration should come first?
(A) Global integration
(B) Domestic financial market integration
(C) Regional integration
(D) Sectoral integration

Ans :

(B) Domestic financial market integration
The text states that in the hierarchy of integration, domestic financial market integration comes first, followed by global and regional integration. A well-integrated domestic market is considered a foundational pillar. It provides the stability and efficiency necessary before a country can more effectively and safely integrate with the broader global and regional financial systems.

May/June 2013

29. Which of the following is a key benefit of domestic financial integration?
(A) It increases reliance on foreign capital, creating significant currency mismatches.
(B) It weakens the transmission channel for monetary policy, making central bank actions less effective.
(C) It constitutes a critical pillar of a market-based economy by mobilising savings.
(D) It increases macro-economic volatility by amplifying shocks and reducing overall financial stability.

Ans :

(C) It constitutes a critical pillar of a market-based economy by mobilising savings.
The benefits of domestic financial integration are highly valued. A domestically integrated market is a critical pillar of a market-based economy because it efficiently mobilises domestic savings, allocates risk, and absorbs shocks. This contributes to more stable investment financing, higher economic growth, lower macroeconomic volatility, and greater overall financial stability, reducing over-reliance on foreign capital.

Oct/Nov 2021

30. Analytical arguments supporting financial openness and global integration revolve around which main consideration?
(A) The increased market power of monopolistic and cartelised financial firms

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Ans :

(A) The Weighted Average Lending Rates (WALR)

Even with the presence of various impediments that can dilute its impact, the policy repo rate remains a powerful tool. It continues to condition the evolution of the nominal Weighted Average Lending Rates (WALR) of banks. This is achieved by influencing the cost of funds for banks, both wholesale and retail, demonstrating a clear interconnectedness between policy rates and lending rates.

May/June 2005

48. What is the typical relationship between bond yields and the equity market?

(A) An increase in bond yields pushes stock market indices up.
(B) They generally move in opposite directions; an increase in bond yields pushes stock markets down.
(C) A decrease in bond yields causes stock market indices to fall.
(D) They generally move in the same direction, in tandem.

Ans :

(B) They generally move in opposite directions; an increase in bond yields pushes stock markets down.

The capital (equity) market generally moves in the opposite direction to the bond market. An increase in bond yields makes bonds more attractive, raising the opportunity cost of investing in riskier equities, which tends to push stock markets down. Conversely, a decrease in bond yields makes equities relatively more attractive, often leading to a rise in stock market indices.

Oct/Nov 2025

49. From an investor's perspective, what do bond yields represent in the context of equity investment?

(A) A guaranteed return on equities
(B) The opportunity cost of investing in equities
(C) The risk premium on equities
(D) The dividend yield of the stock market

Ans :

(B) The opportunity cost of investing in equities

Bond yields, particularly those of risk-free government bonds, serve as a benchmark for the opportunity cost of investing in equities. If an investor can earn a certain yield from a safe bond, the riskier equity market must offer a return significantly above that yield to be attractive. This required excess return compensates for the additional risk of equities.

May/June 2007

50. An analyst observes that the 10-year government bond is currently yielding 6% per annum. Based on historical data, she assumes that a risk premium of 5% is necessary to compensate for the additional risk of investing in the stock market.

According to the concept of opportunity cost described, what rate acts as the effective opportunity cost for equity, below which an investment in equities may not be prudent?

(A) 11%
(B) 6%
(C) 5%
(D) 1%

Ans :

(A) 11%

The opportunity cost for investing in equities is the return from the risk-free asset (bond yield) plus the required risk premium. In this case, it is 6% (bond yield) + 5% (risk premium), which equals 11%. If the expected return from equities is below this 11% threshold, it may not be a prudent investment as it fails to adequately compensate for the additional risk undertaken.

Oct/Nov 2024

51. What is the nature of the interconnectedness observed between major domestic stock markets, like India's, and large international stock markets like those in New York and London?

(A) They tend to move in opposite directions.
(B) There is no observable correlation between them.
(C) They tend to move in tandem, in the same direction.
(D) The domestic market leads the international markets.

Ans :

(C) They tend to move in tandem, in the same direction.

There is a significant interconnectedness between domestic capital markets and their

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liabilities according to prescribed guidelines is known as:
(A) Risk Management
(B) Asset Liability Management (ALM)
(C) Arbitrage
(D) Reserve Management

Ans :

(B) Asset Liability Management (ALM)
Asset Liability Management (ALM) is the specific function of an integrated treasury focused on the strategic management of the balance sheet. It involves determining the optimal size and growth rate for the bank's assets and liabilities. A crucial part of ALM is the pricing of these assets and liabilities in accordance with prescribed guidelines to manage risks and ensure profitability.

Oct/Nov 2021

61. Market risk for a bank's assets can arise from several factors. Which of the following is NOT listed as a source of market risk for assets?
(A) Unfavourable change in interest rates
(B) Increasing levels of disintermediation
(C) A decrease in the securitisation of assets
(D) Emergence of credit derivatives

Ans :

(C) A decrease in the securitisation of assets
The text lists sources of market risk for assets as unfavourable interest rate changes, increasing disintermediation, securitisation of assets, and the emergence of credit derivatives. An increase in securitisation can create market risk as assets are transformed into tradable securities. A decrease in securitisation would not be considered a source of increasing market risk in this context.

May/June 2024

62. A bank's integrated treasury department notices that it can borrow funds in US dollars at a low interest rate. It plans to convert these funds into Indian Rupees, invest them in a higher-yielding domestic instrument, and simultaneously enter into a forward contract to convert the principal and interest back to US dollars at maturity.
This entire operation is an example of which treasury function?
(A) Reserve Management
(B) Asset Liability Management
(C) Risk Management
(D) Arbitrage

Ans :

(D) Arbitrage
This scenario perfectly describes an arbitrage operation. The treasury is exploiting the price differential (in this case, the interest rate differential) between two different markets (the US dollar market and the Indian Rupee market). By simultaneously borrowing, converting, investing, and hedging the exchange risk with a forward cover, the bank aims to lock in a risk-free profit.

Oct/Nov 2013

63. What is the definition of a contagion in the context of financial markets?
(A) The spread of an economic crisis from one market or region to another
(B) The process of integrating different markets into a single, unified entity
(C) A government policy designed to isolate domestic markets from global trends
(D) The gradual and uniform appreciation of currencies in an entire geographic region

Ans :

(A) The spread of an economic crisis from one market or region to another
A contagion is defined as the transmission or spread of an economic crisis from one market, asset class, or geographic region to another. This can happen at both domestic and international levels. It is a key risk of market interconnectedness, where a negative shock in one area can trigger a cascade of negative effects in others.

May/June 2015

64. The contagion effect has become a more prominent phenomenon due to which primary factor?
(A) The general decline of the global economy and the reduced importance of financial markets.
(B) The growing global economy and the increased dependence of nations on financial markets.
(C) The increasing economic and financial isolation of countries within their specific geographic regions.
(D) The global shift away from interconnected monetary systems towards purely domestic financial arrangements.

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arbitrage opportunities that may arise between different markets.

May/June 2018

56. Before the advent of integrated treasury, how were the domestic treasury and forex dealing room of a bank typically managed?
(A) As independent and separate operations
(B) As a single, unified profit centre
(C) The forex room managed all treasury functions
(D) The domestic treasury managed all forex operations

Ans :

(A) As independent and separate operations
Traditionally, the forex dealing room and the domestic treasury/investment operations of a bank were managed as separate, independent units. The forex room handled merchant transactions and cover operations, while the domestic treasury was treated as a cost centre focused on reserve management (CRR/SLR) and investments in government and non-government securities, with no integration between the two.

Oct/Nov 2022

57. Which of the following is a key driver that created the need for integrating a bank's forex and domestic treasury operations?
(A) Stricter enforcement of capital and exchange controls
(B) Increased regulation and administration of interest rates
(C) The introduction of derivative products
(D) A decline in technological advancement in settlement systems

Ans :

(C) The introduction of derivative products
Several factors necessitated the integration of treasury operations. These include interest rate deregulation, liberalisation of exchange control, and technological advancements. The introduction of new and complex derivative products, which often link interest rates and currencies, was a particularly significant driver, as managing the risks and opportunities of these instruments required a unified view of both forex and domestic markets.

May/June 2014

58. Which function of an integrated treasury involves using duration analysis as a tool to monitor the price sensitivity of an investment to interest rate changes?
(A) Reserve Management and Investment
(B) Liquidity and Funds Management
(C) Asset Liability Management (ALM)
(D) Arbitrage

Ans :

(A) Reserve Management and Investment
The Reserve Management and Investment function of an integrated treasury involves managing the bank's investment portfolio to optimize yield and duration, alongside meeting CRR/SLR obligations. Duration analysis is a specific tool used within this function to measure and monitor the sensitivity of the price of a debt instrument or portfolio to changes in interest rates.

Oct/Nov 2007

59. Which of the following activities falls under the 'Liquidity and Funds Management' function of an integrated treasury?
(A) Complying with daily CRR and SLR obligations
(B) Simultaneously buying and selling assets in different markets to make a risk-free profit
(C) Determining the optimal size and growth rate of the balance sheet for the long term
(D) Providing policy inputs on the funding mix (currency, tenor, cost) to the strategic planning group

Ans :

(D) Providing policy inputs on the funding mix (currency, tenor, cost) to the strategic planning group
The Liquidity and Funds Management function involves analyzing cash flows and ensuring a well-diversified liability base. A key part of this function is providing strategic policy inputs to the bank's planning group. These inputs concern the optimal funding mix, considering factors like currency, tenor, and cost, as well as the expected yield on credit and investments.

May/June 2025

60. The function of an integrated treasury that calls for determining the optimal size and growth rate of the balance sheet and pricing assets and

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counterparts in major international financial centres. This "global coupling" means that stock markets across the globe tend to move in tandem, or in the same direction. A major movement in a large market like the S&P500 in the USA often has a corresponding effect on markets like the NIFTY50 in India.

May/June 2020

52. Figure 34.6 "Movement of NIFTY50 and S&P500 Equity Indices", which shows a positive correlation between the two indices over a 5-year period.
The positive correlation evident in Figure 34.6 between the NIFTY50 and the S&P500 is an indicator of what phenomenon?
(A) Economic decoupling
(B) Regional market isolation
(C) Currency hedging
(D) Global coupling

Ans :

(D) Global coupling
The chart shows the NIFTY50 (India) and the S&P500 (USA) moving in the same general direction over a five-year period. This tandem movement, or positive correlation, between major international stock indices is explicitly referred to as "global coupling." It demonstrates the high degree of interconnectedness between the world's major capital markets, where trends in one often influence others.

Oct/Nov 2012

53. If the Indian stock market turns down, what is the likely impact on Foreign Institutional Investor (FII) activity and the domestic currency?
(A) FIIs invest more, leading to a strengthening of the Rupee.
(B) FIIs pull back money, leading to a strengthening of the Rupee.
(C) FIIs pull back money, leading to a weakening of the Rupee.
(D) FIIs' activity remains unchanged, with no impact on the Rupee.

Ans :

(C) FIIs pull back money, leading to a weakening of the Rupee.
A downturn in the stock market often prompts Foreign Institutional Investors (FIIs) to sell their holdings and pull their money out of the country. This leads to a spate of outward foreign remittances, increasing the demand for foreign currency (like the US dollar) and the supply of the domestic currency (Rupee). This dynamic weakens the Rupee, causing the USD-INR rate to go up.

May/June 2011

54. What is the typical correlation between the stock market level in India (e.g., NIFTY50) and the value of the Indian Rupee (INR)?
(A) A strong positive correlation
(B) A negative correlation
(C) No correlation
(D) A perfectly stable correlation

Ans :

(B) A negative correlation
There is generally a negative correlation between the Indian stock market's performance and the USD-INR exchange rate. When the stock market is booming, it attracts FII inflows, strengthening the Rupee (USD-INR rate falls). Conversely, when the market falls, FII outflows weaken the Rupee (USD-INR rate rises). This inverse relationship is evident in market dynamics.

Oct/Nov 2016

55. What is the core function of an integrated treasury in a bank?
(A) To manage only domestic money market operations, isolated from foreign exchange activities.
(B) To focus exclusively on foreign exchange dealings that arise from corporate merchant transactions.
(C) To operate as a cost centre dedicated solely to managing CRR and SLR reserve requirements.
(D) To holistically manage funding and deployment of funds in both domestic and global markets.

Ans :

(D) To holistically manage funding and deployment of funds in both domestic and global markets.
An integrated treasury adopts a holistic or unified approach to managing a bank's funds. It is responsible for funding the balance sheet and deploying surplus funds across both domestic and global money and forex markets. This integrated view allows the bank to optimize its asset-liability management and capitalize on

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Ans :

(B) The growing global economy and the increased dependence of nations on financial markets.

Contagions have become more prominent as the global economy has grown and national economies have become more interconnected and dependent on financial markets. This deep integration means that shocks are transmitted more quickly and widely. The connections through trade, capital flows, and financial systems create the channels through which contagion can spread rapidly across the globe.

Oct/Nov 2017

65. Assertion (A): In a domestic market, if one large bank sells most of its assets quickly, confidence in other large banks may drop accordingly.

Reason (R): This is an example of a domestic contagion where negative externalities diffuse from one crashing market participant to another.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

The assertion correctly describes a scenario of domestic financial panic. The reason provides the correct term and mechanism for this event. The rapid asset sale by one bank can signal distress, causing a loss of confidence that spreads to other banks. This is a classic example of domestic contagion, where negative effects spill over between participants.

May/June 2008

66. The 1997 South East Asian Crisis, where the collapse of currencies like the Thai Baht spread to others in the region, was rooted in what primary issue?

(A) A gross excess of dollar-denominated debt in the region
(B) A significant excess of local currency-denominated debt
(C) A sudden and uniform appreciation of all regional currencies
(D) Insufficient cross-border investment and international trade

Ans :

(A) A gross excess of dollar-denominated debt in the region

The root of the 1997 South East Asian Crisis was a "gross excess of dollar-denominated debt in the region." When local currencies began to collapse against the dollar, the real burden of this foreign currency debt skyrocketed. This created a vicious cycle of defaults and currency depreciation that spread contagiously throughout the region.

Oct/Nov 2011

67. The "Taper Tantrum" is cited as an example of a contagion effect. What event triggered the Taper Tantrum?

(A) The US Federal Reserve's decision to increase its large-scale purchase of bonds.
(B) The European Central Bank's unexpected decision to sharply cut its main interest rates.
(C) The US Federal Reserve's decision to reduce its purchase of bonds under its QE programme.
(D) A sharp increase in global oil prices led by an OPEC production cut announcement.

Ans :

(C) The US Federal Reserve's decision to reduce its purchase of bonds under its QE programme.

The "Taper Tantrum" refers to the market reaction to the announcement by the US Federal Reserve that it would begin to taper, or reduce, its large-scale bond purchases under the Quantitative Easing (QE) programme. This signal of a future tightening of US monetary policy caused a significant sell-off and currency depreciation in many emerging markets.

May/June 2019

68. Figure 34.8 "Movement of Major Currencies against US Dollar (August 30, 2013 over May 22, 2013)"

According to the data presented in the chart for the "Taper Tantrum" period, which currency experienced the most significant depreciation against the US Dollar?

(A) Brazilian Real
(B) Turkish Lira
(C) Indonesian Rupiah
(D) Indian Rupee

Ans :

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(C) A financier who exclusively provided short-term working capital loans to other traders for their ventures.
(D) An entrepreneur who invested accumulated profits and added banking functions to his merchant activities.

Ans :

(D) An entrepreneur who invested accumulated profits and added banking functions to his merchant activities.
The 'le Merchand Banquer' in France was a multifaceted figure who transcended the role of a simple trader. This individual was an entrepreneur, investing profits into diverse ventures and integrating banking functions into their primary merchant operations, thereby becoming a precursor to the modern merchant banker who combines advisory and financing roles.

May/June 2007

5. In India, which entities acted as 'Issue Houses' for securities before the enactment of the Indian Companies Act, 1956?
(A) Development Financial Institutions (DFIs).
(B) Nationalised Commercial Banks.
(C) Managing Agency Houses.
(D) The Reserve Bank of India.

Ans :

(C) Managing Agency Houses.
Prior to the formal legal framework established by the Indian Companies Act of 1956, the function of managing securities issues was primarily carried out by entities known as Managing Agency Houses. These houses, along with a few share broking firms, performed roles that are now associated with modern merchant banks in the primary market.

Oct/Nov 2025

6. Which bank was the first to formally initiate merchant banking activities in the Indian capital markets by receiving a license from the Reserve Bank in 1967?
(A) State Bank of India.
(B) Grindlays Bank Plc.
(C) Citibank.
(D) ICICI.

Ans :

(B) Grindlays Bank Plc.
The formal entry of merchant banking into the Indian financial landscape occurred in 1967 when Grindlays Bank Plc obtained the first-ever license from the Reserve Bank of India. This marked a significant milestone, as Grindlays Bank began with managing capital issues and recognized the diverse financial needs of the emerging entrepreneurial class.

May/June 2012

7. Following the recommendations of the Banking Commission in 1972, which Indian public sector bank was the first to start a Merchant Banking Division?
(A) Bank of Baroda.
(B) Punjab National Bank.
(C) Central Bank of India.
(D) State Bank of India.

Ans :

(D) State Bank of India.
Based on the 1972 Banking Commission's recommendation that Indian banks should offer multiple services, the State Bank of India pioneered the move by establishing its Merchant Banking Division in the same year. Initially, its main objective was to offer corporate advice and assistance to small and medium-sized entrepreneurs, expanding the scope of traditional banking.

Oct/Nov 2014

8. Arrange the following Development Financial Institutions (DFIs) in the chronological order of their entry into merchant banking activities.
1. Industrial Development Bank of India (IDBI)
2. Industrial Credit and Investment Corporation of India (ICICI)
3. Industrial Finance Corporation of India (IFCI)

(A) 1, 2, 3
(B) 2, 3, 1
(C) 3, 1, 2
(D) 2, 1, 3

Ans :

(B) 2, 3, 1
Among the DFIs, ICICI was the first to commence merchant banking activities in 1973. It was followed by IFCI, which started its merchant banking operations in 1986. The last of the three to enter this field was IDBI, which began its merchant banking services in 1991, reflecting the

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CHAPTER 35
Merchant Banking Services

May/June 2016

1. According to the introductory text, what is the primary role of a Merchant Bank in the Indian financial system?

(A) To provide regular banking services like deposits and loans to the general public.

(B) To act as an intermediary between business entities requiring funds and investors with ready capital.

(C) To exclusively regulate the activities of the bond market and equity market.

(D) To function as a government agency for raising long-term funds through treasury bonds.

Ans :

(B) To act as an intermediary between business entities requiring funds and investors with ready capital.

Merchant Banks serve a crucial function by connecting corporates and other entities that need capital for their operations with investors who are seeking opportunities to invest their funds. They facilitate this flow of capital, primarily within the capital market, bridging the gap between the demand for and supply of funds.

Oct/Nov 2009

2. As per the notification from the Ministry of Finance, how is a 'Merchant Banker' defined?

(A) Any person engaged in issue management, such as arranging the sale, purchase, or subscription of securities.

(B) Any person engaged in providing large-scale loans and credit advances, mainly to corporate entities and wealthy individuals.

(C) Any person who exclusively manages investment portfolios for high-net-worth individuals and foreign institutional investors.

(D) Any person who primarily deals in foreign exchange markets and issues bills of exchange for international trade finance.

Ans :

(A) Any person engaged in issue management, such as arranging the sale, purchase, or subscription of securities.

The formal definition provided by the Ministry of Finance centres on the core activity of issue management. This includes acting as a manager, consultant, or advisor for the process of selling, buying, or subscribing to securities, and providing corporate advisory services directly related to such issue management activities.

May/June 2023

3. To which historical period and region can the origins of merchant banking be traced?

(A) England during the industrial revolution in the nineteenth century.

(B) The United States during the post-war economic boom in the twentieth century.

(C) Italy in late medieval times and France in the seventeenth and eighteenth centuries.

(D) Japan during the Meiji restoration period in the late nineteenth century.

Ans :

(C) Italy in late medieval times and France in the seventeenth and eighteenth centuries.

The historical roots of merchant banking are found in late medieval Italy, where merchants began financing transactions for others. The concept further evolved in France during the 17th and 18th centuries, where the 'le Merchand Banquer' was not just a trader but an entrepreneur who invested accumulated profits in various promising activities.

Oct/Nov 2018

4. What was the role of the French 'le Merchand Banquer' during the seventeenth and eighteenth centuries?

(A) A simple trader who only facilitated the direct physical exchange of goods between parties.

(B) A government official appointed by the state, responsible for collecting trade taxes from local merchants.

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activities are focused on finalizing the issue process and include final allotment, managing refunds, calculating any underwriting devolvement, and, crucially, completing all the necessary formalities and statutory requirements to get the newly issued securities listed and traded on the stock exchange.

Oct/Nov 2021

30. What is a primary benefit for a bank when it acts as a 'Banker to the Issue' (Collecting Banker)?

(A) It is a source of low-cost float funds from the collected application money.

(B) It guarantees a substantial stream of high-margin, fee-based income from providing advisory services.

(C) It allows the bank to fulfill its obligation to underwrite a significant portion of the entire issue.

(D) It automatically provides the bank with significant voting rights in the management of the issuing company.

Ans :

(A) It is a source of low-cost float funds from the collected application money.

Acting as a Banker to the Issue provides a significant financial advantage through access to "float funds." The application money collected from investors is held by the bank for a short period before allotment or refund. This provides the bank with a substantial amount of low-cost or cost-free funds, which can be deployed profitably.

May/June 2024

31. Besides providing float funds, what is another advantage for a bank when it undertakes the assignment of 'Paying Banker' for dividends or refunds?

(A) It gains control over the issuing company's management.

(B) It adds to the fee-based income of the bank.

(C) It fulfills a mandatory RBI requirement for all commercial banks.

(D) It automatically makes the bank a lead manager for future issues.

Ans :

(B) It adds to the fee-based income of the bank.

The role of a Paying Banker, which involves managing the payment of dividend warrants, interest warrants, or refund orders, is a valuable service. In addition to the benefit of short-term float funds, the bank charges a fee for rendering these services. This contributes directly to the bank's non-interest, fee-based income stream.

Oct/Nov 2008

32. According to SEBI guidelines, what is a key restriction on banks acting as 'Debenture Trustees'?

(A) Banks can only act as trustees for debenture issues that are smaller than a threshold of ₹100 crores.

(B) Banks cannot act as trustees for debenture issues of their existing borrowers.

(C) Banks are only permitted to act as trustees if they are also appointed as the lead manager to the same issue.

(D) Banks are completely and universally prohibited from acting as debenture trustees in any capacity for any issuer.

Ans :

(B) Banks cannot act as trustees for debenture issues of their existing borrowers.

To prevent a clear conflict of interest, SEBI guidelines impose a crucial restriction. A bank is prohibited from obtaining 'Debenture Trustee' assignments for companies to which it has already provided credit facilities. This rule ensures that the trustee's duty to protect debenture holders is not compromised by its relationship as a lender to the company.

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May/June 2006

33. Which of the following aspects does NOT require close scrutiny by a merchant banker before undertaking an underwriting assignment?

(A) The technical and commercial viability of the project and its geographical location.

(B) The past track record, integrity, and business reputation of the company's promoters.

(C) The historical stock price performance of the merchant bank itself.

(D) The marketability of the product and the prevailing conditions in the capital market.

Ans :

(C) The historical stock price performance of the merchant bank itself.

When evaluating an underwriting risk, a merchant banker must conduct thorough due diligence on the issuing company and the issue itself. This includes assessing the project, promoters, product marketability, and

gradual expansion of these services among major financial institutions.

May/June 2019

9. What significant change was introduced by the amendment to the Banking Regulation Act, 1949, in the mid-1980s regarding financial services?

(A) It mandated that all commercial banks must directly offer a full suite of merchant banking services.

(B) It formally transferred all regulatory authority over merchant banks from the Reserve Bank of India to SEBI.

(C) It permitted commercial banks to establish subsidiaries to offer a wide range of financial services.

(D) It strictly prohibited commercial banks from engaging in any form of securities underwriting for public issues.

Ans :

(C) It permitted commercial banks to establish subsidiaries to offer a wide range of financial services.

The amendment to the Banking Regulation Act, 1949, in the mid-1980s was a pivotal development. It enabled commercial banks to diversify their service offerings beyond traditional banking by establishing separate subsidiaries. This legal provision facilitated the creation of dedicated merchant banking arms by many commercial banks, allowing them to offer specialized capital market services.

Oct/Nov 2006

10. Which of the following statements correctly identifies the primary regulators for Merchant Banks and Commercial Banks in India?

(A) Merchant Banks are regulated by SEBI, whereas Commercial Banks are governed by RBI.

(B) Both Merchant Banks and Commercial Banks are regulated by RBI.

(C) Merchant Banks are regulated by RBI, whereas Commercial Banks are governed by SEBI.

(D) Both Merchant Banks and Commercial Banks are regulated by the Ministry of Finance.

Ans :

(A) Merchant Banks are regulated by SEBI, whereas Commercial Banks are governed by RBI.

There is a clear demarcation of regulatory oversight. The Securities and Exchange Board of India (SEBI) is the principal regulator for Merchant Banks, overseeing their activities in the capital market, such as issue management. In contrast, Commercial Banks, which primarily deal with deposits and lending, are governed by the regulations set forth by the Reserve Bank of India (RBI).

May/June 2021

11. What is a key difference between Merchant Banks and Commercial Banks regarding their primary area of financing?

(A) Both institutions primarily deal with providing debt and debt-related finance like term loans to corporate clients.

(B) Merchant Banks are specialists in providing debt finance, while Commercial Banks focus on raising equity from the capital market.

(C) Both institutions primarily assist companies in raising capital through equity and equity-related financial instruments.

(D) Merchant Banks focus on raising equity finance, while Commercial Banks primarily provide debt finance.

Ans :

(D) Merchant Banks focus on raising equity finance, while Commercial Banks primarily provide debt finance.

A fundamental distinction lies in their financing focus. Merchant Banks are specialists in the capital markets, helping companies raise funds through equity instruments like shares. Conversely, Commercial Banks are traditional lenders whose core business revolves around providing debt and debt-related finance, such as loans and credit facilities, funded by public deposits.

Oct/Nov 2010

12. From an operational perspective, how are Merchant Banks and Commercial Banks oriented?

(A) Merchant Banks are asset-oriented, whereas Commercial Banks are management-oriented.

(B) Merchant Banks are management-oriented, whereas Commercial Banks are asset-oriented.

(C) Both are primarily asset-oriented.

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(D) Indian Rupee

The bar chart in Figure 34.8 visually represents the percentage change of various currencies against the US Dollar. The longest negative bar corresponds to the Indian Rupee, showing a depreciation of -16.6%. This was the largest fall among all the currencies listed in the chart, indicating it was the most severely affected during this specific period.

Oct/Nov 2020

69. A bank's treasury team is responsible for complying with CRR/SLR obligations. The team also actively manages a portfolio of government and corporate bonds with the goal of optimizing yield while managing the portfolio's sensitivity to interest rate fluctuations.

Which core function of an integrated treasury is this team primarily engaged in?

(A) Arbitrage
(B) Liquidity and Funds Management
(C) Reserve Management and Investment
(D) Asset Liability Management

Ans :

(C) Reserve Management and Investment

This scenario describes the key activities of the Reserve Management and Investment function. This function explicitly includes complying with statutory obligations like CRR and SLR. Furthermore, it involves managing the investment portfolio to optimize yield and duration, which directly relates to the team's goal of maximizing returns while managing interest rate risk on their bond holdings.

May/June 2017

70. Match the financial market characteristic (List-I) with its correct description (List-II).

List-I
P. Domestic Integration
Q. Global Integration
R. Regional Integration
S. Contagion

List-II
1. Opening up to free cross-border flow of capital.
2. Spread of an economic crisis from one market to another.
3. Horizontal linkages where interest rates revolve around a reference rate.
4. Ties between a region and a major financial centre serving it.

Code:
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-4, R-3, S-1

Ans :

(A) P-3, Q-1, R-4, S-2

Domestic Integration (P) is defined by horizontal linkages within a country, with rates moving around a reference rate (3). Global Integration (Q) involves opening up to cross-border capital flows (1). Regional Integration (R) stems from ties to a major financial centre (4). Contagion (S) is the spread of a crisis between markets (2).

NODIA

underwrite a pre-agreed portion of the total public issue.

(D) To act as a legal trustee, representing and protecting the collective interests of the company's debenture holders.

Ans :

(B) To manage ASBA applications and execute collecting, refund, or paying banker duties.

A 'Banker to the Issue' is responsible for the operational aspects of an issue's fund flow. This involves managing a network of branches to handle Application Supported by Blocked Amount (ASBA) applications from investors and executing the functions of a collecting banker (receiving application money) and a paying/ refund banker (distributing refunds or dividends).

May/June 2014

17. According to SEBI guidelines, a 'Debenture Trustee' is mandatory for public rights issues of debentures with a maturity period exceeding what duration?

(A) 6 months
(B) 18 months
(C) 12 months
(D) 24 months

Ans :

(B) 18 months

SEBI regulations mandate the appointment of a Debenture Trustee for all public rights issues of debentures where the maturity period is more than 18 months. The name of the trustee must be disclosed in the prospectus. This requirement is designed to protect the interests of a large number of debenture holders through a single representative entity.

Oct/Nov 2007

18. What is the SEBI regulation regarding a Merchant Bank also acting as a Debenture Trustee for an issue?

(A) A Merchant Bank is permitted to directly act as the Debenture Trustee for any public issue it manages.
(B) A Merchant Bank cannot be the Trustee, but its separately registered subsidiary can undertake the role.
(C) A Merchant Bank can only act as a Debenture Trustee if the total issue size is below a threshold of ₹100 crores.
(D) A Merchant Bank and its affiliates are strictly prohibited from having any association with a Debenture Trustee.

Ans :

(B) A Merchant Bank cannot be the Trustee, but its separately registered subsidiary can undertake the role.

To avoid conflicts of interest, SEBI guidelines stipulate that a Merchant Bank cannot directly serve as the Debenture Trustee for an issue. However, this function can be performed by a subsidiary of the Merchant Bank, provided that the subsidiary has obtained a separate certificate of registration from SEBI to act as a Debenture Trustee.

May/June 2025

19. To carry on the activity of a 'Portfolio Manager', what must a Merchant Bank do according to SEBI guidelines?

(A) It can perform this activity automatically under its existing Category I Merchant Banker license without further approval.
(B) It must obtain a separate Certificate of Registration under the SEBI (Portfolio Manager) Regulations, 1993.
(C) It only needs to inform the relevant stock exchange and the RBI about its intention to act as a portfolio manager.
(D) It must form a legal joint venture with an established and registered Portfolio Management Service provider.

Ans :

(B) It must obtain a separate Certificate of Registration under the SEBI (Portfolio Manager) Regulations, 1993.

The activity of portfolio management is governed by a distinct set of regulations. Even if an entity is a registered merchant bank, it cannot undertake portfolio management services unless it secures a separate Certificate of Registration specifically for this purpose under the provisions of the SEBI (Portfolio Manager) Regulations, 1993, ensuring specialized compliance and oversight.

Oct/Nov 2019

20. How many categories of Merchant Bankers are specified under the SEBI regulations?

(A) Two
(B) Three
(C) Five
(D) Four

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(D) Both are primarily management-oriented.

Ans :

(B) Merchant Banks are management-oriented, whereas Commercial Banks are asset-oriented.
The operational orientation differs significantly. Merchant Banks are management-oriented, focusing on advisory, structuring, and strategic services for their clients. Commercial Banks, on the other hand, are asset-oriented, as their primary concern is the quality and performance of their loan book and other assets on their balance sheet, which generate their main income.

May/June 2005

13. Which of the following activities is characteristic of Merchant Banks, as opposed to Commercial Banks?
(A) Accepting various types of time and demand deposits from the general public and institutions.
(B) Providing short-term working capital loans and credit lines to businesses for operational needs.
(C) Advising on project counseling, capital structuring, and corporate amalgamations.
(D) Acting as direct financiers for international and domestic trade activities through letters of credit.

Ans :

(C) Advising on project counseling, capital structuring, and corporate amalgamations.
The activities of Merchant Banks are predominantly advisory and strategic. They include services like project counseling, determining optimal capital structures for companies, and facilitating complex corporate actions such as mergers, amalgamations, and takeovers. Commercial Banks, in contrast, are primarily financiers, focusing on lending and other fund-based activities rather than strategic corporate advisory.

Oct/Nov 2022

14. Identify the statement that incorrectly describes the difference between Merchant Banking and Commercial Banking.
(A) Merchant Banks are regulated by the authority of SEBI, while Commercial Banks are governed under the purview of RBI.
(B) Merchant Banks typically engage in fee-based business models, while Commercial Banks primarily operate a funding-based business model.
(C) Merchant Banks assist clients in raising equity capital, while Commercial Banks are the primary source for providing debt capital.
(D) Merchant Banks are primarily financiers, while Commercial Banks focus on capital structuring.

Ans :

(D) Merchant Banks are primarily financiers, while Commercial Banks focus on capital structuring.
This statement incorrectly swaps the roles of the two entities. Merchant Banks are primarily focused on advisory services like capital structuring, project counseling, and M&A, which are management-oriented. Commercial Banks, on the other hand, act as the primary financiers by providing loans and other debt instruments, making them fund-based and asset-oriented institutions.

May/June 2018

15. To render services like issue management, underwriting, and corporate advisory, a prospective entity must obtain which specific license from SEBI?
(A) Merchant Banker Certificate of Registration.
(B) Banker to the Issue Certificate.
(C) Debenture Trustee Certificate.
(D) Portfolio Manager Certificate.

Ans :

(A) Merchant Banker Certificate of Registration.
For an entity to legally engage in core merchant banking activities such as managing public/rights issues, underwriting, and providing consultancy and corporate advisory services, it must first obtain a Certificate of Registration as a Merchant Banker from SEBI. This certificate categorizes the entity and defines the scope of its permissible activities.

Oct/Nov 2016

16. What is the role of an entity holding a 'Banker to the Issue' certificate of registration from SEBI?
(A) To provide expert advice to the issuing company on the appropriate pricing of the equity or debt issue.
(B) To manage ASBA applications and execute collecting, refund, or paying banker duties.
(C) To provide a binding commitment to

NODIA

(C) ₹5 crores
(D) ₹50 lakhs

Ans :

(C) ₹5 crores
To ensure financial stability and the capacity to handle significant responsibilities, SEBI mandates a minimum net worth for Category I Merchant Bankers. The applicant must have a net worth of not less than ₹5 crores. This net worth is defined as the sum of the applicant's paid-up capital and free reserves.

Oct/Nov 2005

26. Which of the following is NOT listed as a key criterion for SEBI's authorization of a Merchant Bank?
(A) Possession of professional qualifications in finance, law, or business management.
(B) The applicant entity must be a company that is publicly listed on a recognized stock exchange.
(C) Possession of adequate infrastructure including office space, modern equipment, and sufficient skilled manpower.
(D) A clean past track record, relevant industry experience, and a generally good business reputation.

Ans :

(B) The applicant entity must be a company that is publicly listed on a recognized stock exchange.
SEBI's authorization criteria focus on the applicant's capability, integrity, and infrastructure. This includes professional qualifications of its personnel, having adequate physical and human resources, sufficient capital, and a good track record. However, there is no requirement that the applicant entity itself must be a publicly listed company on a stock exchange.

May/June 2020

27. The Issue Management function of a merchant bank is broadly divided into which two phases?
(A) Domestic and International functions.
(B) Equity and Debt functions.
(C) Advisory and Underwriting functions.
(D) Pre-issue and Post-issue functions.

Ans :

(D) Pre-issue and Post-issue functions.
The entire process of managing a securities issue is systematically divided into two distinct phases. Pre-issue functions encompass all activities leading up to the opening of the issue, such as document preparation and marketing. Post-issue functions include all activities after the issue closes, such as allotment, refund processing, and listing of securities.

Oct/Nov 2015

28. Which of the following activities falls under the 'Pre-Issue Functions' of a merchant bank?
(A) Executing the final, binding allotment of shares to successful investor applicants.
(B) Calculating the specific liability of underwriters in the event of an under-subscribed issue.
(C) Compiling offer documents such as the Draft Red Herring Prospectus (DRHP).
(D) Processing and dispatching monetary refunds to applicants who were not allotted shares.

Ans :

(C) Compiling offer documents such as the Draft Red Herring Prospectus (DRHP).
Pre-issue functions are all the preparatory steps taken before a public offering is opened for subscription. This includes crucial tasks like designing the issue structure, pricing the securities, and compiling and filing essential documents like the DRHP or Red Herring Prospectus (RHP) with regulatory authorities such as SEBI and the Registrar of Companies.

May/June 2013

29. Which of the following is considered a 'Post-Issue Function' for a merchant bank?
(A) Designing the specific features and structure of the financial instruments to be offered to the public.
(B) Conducting roadshows and marketing the issue to prospective institutional and retail investors.
(C) Complying with statutory requirements for listing securities on the stock exchange.
(D) Filing and registering the final approved prospectus with the Registrar of Companies (ROC).

Ans :

(C) Complying with statutory requirements for listing securities on the stock exchange.
Post-issue functions commence after the subscription period for an issue closes. These

Ans :

(D) Four
The Securities and Exchange Board of India (SEBI) has classified Merchant Bankers into four distinct categories: Category I, Category II, Category III, and Category IV. This categorization is based on the scope and range of activities that a merchant banker is permitted to undertake, with Category I having the widest scope of operations.

May/June 2009

21. Which category of Merchant Banker is authorized to act as an 'Issue Manager' and carry on any activity related to issue management?
(A) Category IV
(B) Category III
(C) Category II
(D) Category I

Ans :

(D) Category I
A Category I Merchant Banker has the broadest authority. They can act as lead managers or issue managers, which involves the entire spectrum of issue management activities. This includes preparing the prospectus, determining financial structure, tying up finance, and managing final allotment and refunds, in addition to all other advisory and underwriting functions.

Oct/Nov 2011

22. What are the limitations on a Category II Merchant Banker?
(A) They are strictly limited to acting only as an advisor or consultant to an issue, with no underwriting role.
(B) They can act as co-managers or underwriters, but are not permitted to act as the lead issue manager.
(C) They can perform all functions of a Category I banker but are restricted to managing issues below a certain size.
(D) They are limited to performing only underwriting commitments and portfolio management activities for clients.

Ans :

(B) They can act as co-managers or underwriters, but are not permitted to act as the lead issue manager.
A Category II Merchant Banker can participate in an issue in various capacities such as an advisor, consultant, co-manager, underwriter, or portfolio manager. However, the critical restriction is that they are not permitted to take on the role of the lead manager or sole manager responsible for the overall issue management process.

May/June 2010

23. A merchant banking firm is only registered to act as an underwriter, advisor, and consultant to an issue. Which category does it belong to?
(A) Category I
(B) Category II
(C) Category III
(D) Category IV

Ans :

(C) Category III
The scope of activities for a Category III Merchant Banker is more restricted than that of Categories I and II. These entities are permitted to function as underwriters, advisors, and consultants for an issue. They cannot act as issue managers, co-managers, or portfolio managers, focusing on a narrower set of support functions within the issue process.

Oct/Nov 2024

24. What is the sole activity permitted for a Category IV Merchant Banker?
(A) To act as an underwriter to an issue.
(B) To act as a portfolio manager.
(C) To act as a co-manager to an issue.
(D) To merely act as an advisor or consultant to an issue.

Ans :

(D) To merely act as an advisor or consultant to an issue.
Category IV represents the most limited scope of merchant banking activities. An entity registered in this category is only allowed to provide advisory or consultancy services in relation to a securities issue. They cannot engage in any other function like issue management, underwriting, or portfolio management, serving a purely consultative role.

May/June 2017

25. As per SEBI regulations, what is the minimum net worth requirement for an applicant seeking a Category I Merchant Banking License?
(A) ₹1 crore
(B) ₹10 crores

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prevailing market sentiment. The performance of the merchant bank's own stock is irrelevant to the risk assessment of underwriting another company's securities issue.

Oct/Nov 2017

34. What is the minimum underwriting obligation for a lead merchant banker holding a Category-I certificate for a regular public issue?

(A) 10% of the total underwriting commitment or ₹50 lakhs, whichever amount is greater.
(B) A fixed obligation equal to 5% of the total public issue size, irrespective of other underwriters.
(C) A flat, non-negotiable underwriting amount of ₹25 lakhs, regardless of the issue's size.
(D) 5% of the total underwriting commitment or ₹25 lakhs, whichever is less.

Ans :

(D) 5% of the total underwriting commitment or ₹25 lakhs, whichever is less.
SEBI regulations mandate that the lead merchant banker (Category I) must take on a minimum level of risk in the issues they manage. This obligation is set at 5% of the total underwriting commitment for the issue or ₹25 lakhs, whichever amount is lower, ensuring they have a vested interest in the issue's success.

May/June 2008

35. For issues made under Chapter XA of the SEBI (ICDR) Regulations, 2009, what is the underwriting requirement for the merchant banker?

(A) The merchant banker must, itself or jointly, underwrite a minimum of 15% of the total issue size.
(B) The merchant banker is granted a full exemption from any mandatory underwriting obligation for such issues.
(C) The merchant banker is required to underwrite a minimum portion equivalent to 5% of the total issue size.
(D) The merchant banker is obligated to provide a firm commitment to underwrite 100% of the entire issue.

Ans :

(A) The merchant banker must, itself or jointly, underwrite a minimum of 15% of the total issue size.
For certain types of issues falling under the specific provisions of Chapter XA of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, there is a higher underwriting obligation. In such cases, the merchant banker, either alone or along with other associated merchant bankers, is required to underwrite a minimum of 15% of the issue size.

Oct/Nov 2013

36. Read the following excerpt and answer the question below.
"In terms of SEBI guidelines, the Company issuing the shares to public shall make arrangements for the use of proceeds of the issue to be monitored by one of the financial institutions, in case of issues, which exceed ₹500 crores. ... Monitoring Agency is required to monitor timely implementation of project and submit return on half yearly basis to SEBI, as per the format specified by SEBI."
According to the excerpt, when is it mandatory for an issuer to appoint a 'Monitoring Agency'?

(A) For all public issues made in the Indian capital market, irrespective of their total size.
(B) For public issues where the total size of the offering exceeds ₹500 crores.
(C) For issues of less than ₹500 crores, but only at the specific insistence of the Stock Exchanges.
(D) Only for public issues that are made by regulated financial institutions and commercial banks.

Ans :

(B) For public issues where the total size of the offering exceeds ₹500 crores.
The provided text clearly states that the appointment of a Monitoring Agency becomes mandatory for public issues where the total size of the issue exceeds ₹500 crores. This SEBI guideline is in place to ensure that large sums of money raised from the public are used for their stated purposes in a timely manner.

May/June 2015

37. What is the reporting frequency for a Monitoring Agency to SEBI?

(A) On a monthly basis.
(B) On a quarterly basis.
(C) On an annual basis.
(D) On a half-yearly basis.

Ans :

NODIA

(D) They are required to invest a minimum of 10% of their total net worth in government-issued securities.

Ans :

(A) They are prohibited from trading on their clients' unpublished price-sensitive information.
To maintain market integrity and prevent insider trading, SEBI imposes a strict prohibition on merchant banks and their employees. They are forbidden from using any unpublished price-sensitive information (UPSI) obtained from their clients during an assignment to trade in those clients' securities for their own account. This is a cornerstone of professional ethics in the securities market.

May/June 2014

46. According to SEBI regulations, what must every merchant bank appoint to monitor compliance with prevailing regulations?
(A) A Chief Financial Officer.
(B) An External Auditor.
(C) A Compliance Officer.
(D) A Board-level Committee.

Ans :

(C) A Compliance Officer.
To ensure adherence to the complex web of securities laws and regulations, SEBI mandates that every registered merchant bank must appoint a Compliance Officer. This individual is specifically responsible for monitoring the firm's day-to-day activities to ensure they are in full compliance with the SEBI Act, associated regulations, and circulars, acting as a key point of contact for the regulator.

Oct/Nov 2022

47. Consider the following policy requirements for merchant banks:
1. Every merchant bank should maintain copies of its balance sheet, profit and loss account, and statement of financial position.
2. Half-yearly unaudited results should be submitted to SEBI.
3. A Lead Merchant Bank should not associate with a merchant banker without registration.
4. An initial authorisation fee, an annual fee and a renewal fee shall be collected by SEBI.

Which of the above are mandated policy requirements as per SEBI regulations?
(A) 1 and 3 only.
(B) 2, 3 and 4 only.
(C) 1, 2 and 4 only.
(D) 1, 2, 3 and 4.

Ans :

(D) 1, 2, 3 and 4.
All four statements represent key policy and procedural requirements imposed by SEBI on registered merchant banks. These rules cover financial transparency (maintaining records and submitting results), professional conduct (not associating with unregistered entities), and financial obligations to the regulator (payment of various fees), ensuring a well-regulated operational framework for all merchant bankers.

May/June 2005

48. To whom is an exception granted regarding the rule that a Merchant Bank should not associate with any business other than that of the securities market?
(A) Standalone Merchant Banking firms.
(B) Merchant Bankers registered after 2003.
(C) Banks and Financial Institutions.
(D) Foreign Institutional Investors.

Ans :

(C) Banks and Financial Institutions.
While standalone merchant banks are generally restricted to activities within the securities market, an exception is made for entities that are also banks or financial institutions. This allows them to conduct merchant banking activities through a division or subsidiary while continuing their primary business of banking or development finance, recognizing their broader, pre-existing operational scope.

Oct/Nov 2018

49. The key codes of conduct for merchant bankers are specified in Schedule III of which regulation?
(A) Banking Regulation Act, 1949.
(B) Companies Act, 1956.
(C) SEBI (Merchant Bankers) Regulations, 1992.
(D) SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

Ans :

(C) SEBI (Merchant Bankers) Regulations, 1992.
The ethical and professional standards that every merchant bank must adhere to are formally codified by the regulator. These key codes of conduct are laid out in Schedule III of the

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includes advising clients on critical financial decisions such as achieving an optimal capital structure, determining the appropriate debt-to-equity or gearing ratio, and exploring options for refinancing or sourcing cheaper funds. These services help companies strengthen their financial health and support growth.

Oct/Nov 2023

42. What service does a merchant bank provide during 'Project Counseling'?

(A) Providing the entire project funding directly from its own balance sheet and capital reserves.

(B) Assisting the client from the project concept stage, including the preparation of a Detailed Project Report (DPR).

(C) Taking over the complete responsibility for the physical construction and implementation of the project.

(D) Exclusively providing specialized legal advice regarding land acquisition and related property laws for the project.

Ans :

(B) Assisting the client from the project concept stage, including the preparation of a Detailed Project Report (DPR).

Project counseling is a comprehensive advisory service where the merchant bank guides a client through the entire project lifecycle. This starts from the initial concept, moves through feasibility studies to assess viability, and includes the preparation of crucial documents like the Detailed Project Report (DPR), which is essential for securing financing from investors or lenders.

May/June 2016

43. What is the first step a merchant bank takes when arranging 'Loan Syndication' for a client?

(A) Conducting the final negotiations on the terms of lending with all the syndicate members.

(B) Preparing and circulating a detailed Project Information Memorandum (PIM) to potential lenders.

(C) Analyzing the client's cash flow patterns to determine suitable borrowing terms.

(D) Finalizing the specific allocation of the total loan amount among the participating banks and institutions.

Ans :

NODIA

(C) Analyzing the client's cash flow patterns to determine suitable borrowing terms.

The loan syndication process begins with a thorough financial assessment of the borrower. The merchant bank first analyzes the client's cash flow patterns and financial health. This initial step is crucial as it helps in determining the appropriate structure, tenure, and other key terms of the proposed loan, forming the basis for all subsequent steps.

May/June 2021

44. The provision of 'NRI Advisory Services' by a merchant banker is mentioned as being especially beneficial under what condition?

(A) The merchant banker itself has a demonstrated strong presence in the domestic corporate debt market.

(B) The parent Bank of the Merchant Banker has a substantial NRI customer base.

(C) The merchant banker specializes primarily in the underwriting of government and public sector securities.

(D) The merchant banker is structured as a wholly-owned subsidiary of a major international foreign bank.

Ans :

(B) The parent Bank of the Merchant Banker has a substantial NRI customer base.

A merchant banker can leverage the network of its parent organization. If the parent commercial bank has a substantial base of Non-Resident Indian (NRI) customers, the merchant banking arm is uniquely positioned to offer them specialized financial advisory services. This synergy allows for cross-selling and providing tailored investment advice to a captive and relevant audience.

Oct/Nov 2009

45. Which of the following is a key policy requirement for merchant banks as per SEBI regulations?

(A) They are prohibited from trading on their clients' unpublished price-sensitive information.

(B) They must submit fully audited financial results on a monthly basis to the Reserve Bank of India.

(C) They must associate with at least one unregistered merchant banker for every public issue they manage.

I Merchant Banker registration.

Which of the statement(s) is/are correct?

(A) 1 and 2 only.
(B) 1, 2 and 3.
(C) 2 only.
(D) 3 only.

Ans :

(C) 2 only.

Statement 1 is incorrect because a Debenture Trustee is required only for issues with maturity exceeding 18 months, not all issues. Statement 3 is incorrect as a separate registration under PM Regulations, 1993 is needed. Statement 2 is correct, as a Banker to the Issue is registered to handle fund-related logistics like ASBA.

May/June 2014

62. What is the primary purpose of creating a debenture trust for public issues?

(A) To provide a legal mechanism for the issuing company to lawfully avoid paying interest to its debenture holders.
(B) To organize numerous debenture holders and facilitate interaction through a single representative entity.
(C) To provide a secondary, additional layer of emergency funding for the issuing company if needed.
(D) To give the lead merchant banker direct legal control over the specified assets of the issuing company.

Ans :

(B) To organize numerous debenture holders and facilitate interaction through a single representative entity.

For a public issue with numerous debenture holders, it is impractical for the company to interact with each one individually. The creation of a debenture trust, with a trustee as a single point of contact, streamlines communication and facilitates collective action, making it easier to protect the interests of all debenture holders.

Oct/Nov 2022

63. A commercial bank, ABC Bank, has provided a large corporate loan to 'Zenith Corp'. Zenith Corp is now planning a public issue of debentures with a 5-year maturity and wants to appoint ABC Bank's merchant banking subsidiary as the Debenture Trustee. Is this permissible under SEBI guidelines?

(A) Yes, it is permissible because the trustee is a legally separate subsidiary and not the lending bank itself.
(B) No, it is not permissible as banks are barred from acting as trustees for their own borrowers.
(C) Yes, it is permissible, but only if the total size of the debenture issue is less than the ₹500 crores threshold.
(D) No, it is not permissible because the debenture's maturity period is greater than the specified 18-month limit.

Ans :

(B) No, it is not permissible as banks are barred from acting as trustees for their own borrowers.

The scenario presents a direct conflict of interest. SEBI guidelines explicitly state that banks cannot act as Trustees for debenture issues of companies who are their borrowers. This rule extends to their subsidiaries to ensure the trustee's loyalty remains solely with the debenture holders and is not compromised by the bank's lending relationship.

May/June 2005

64. Identify the correctly matched pair of a merchant banking activity and its description.

(A) Loan Syndication: Taking responsibility for preparing the company's audited annual financial statements.
(B) Underwriting: Exclusively managing the monetary refund process for all unsuccessful issue applicants.
(C) Monitoring Agency: Determining the appropriate and optimal debt-to-equity ratio for a client company.
(D) Project Counseling: Assisting with feasibility studies and preparing a Detailed Project Report (DPR).

Ans :

(D) Project Counseling: Assisting with feasibility studies and preparing a Detailed Project Report (DPR).

This pair is correctly matched. Project counseling is an advisory service where the merchant bank guides the client from the initial idea stage. This involves conducting feasibility studies to assess the project's viability and helping prepare key documents like the DPR, which is crucial for raising funds from banks or capital markets.

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SEBI (Merchant Bankers) Regulations, 1992. Compliance with these codes, which emphasize investor protection and integrity, is mandatory for all registered merchant bankers.

May/June 2019

50. Which of the following is a primary principle under the SEBI Code of Conduct for Merchant Bankers?

(A) Making all efforts to protect the interests of investors.
(B) Maximizing profit for the merchant bank at all costs.
(C) Prioritizing the interests of the issuing company over those of investors.
(D) Discriminating between institutional and retail clients to offer better terms to institutions.

Ans :

(A) Making all efforts to protect the interests of investors.
A fundamental tenet of the SEBI Code of Conduct is the primacy of investor protection. Merchant bankers are mandated to make every effort to safeguard the interests of the investing public. This principle guides their actions and ensures that their professional advice and issue management activities are conducted with fairness and transparency towards investors.

Oct/Nov 2011

51. What does the SEBI Code of Conduct state regarding the availability of the prospectus or letter of offer?

(A) It should be made available only to institutional investors.
(B) It can be provided to investors after the allotment is complete.
(C) It is optional for the merchant banker to provide the document.
(D) It should be available to investors at the time of issue.

Ans :

(D) It should be available to investors at the time of issue.
To enable informed investment decisions, the SEBI Code of Conduct mandates transparency. It requires merchant bankers to ensure that the primary offer document, such as the prospectus or letter of offer, is made readily available to all prospective investors at the time the issue opens for subscription, not afterwards.

May/June 2023

52. What responsibility does a merchant bank have regarding penal action taken against it by SEBI?

(A) It should keep the information confidential.
(B) It should inform its clients of any such penal action.
(C) It should only inform the stock exchanges.
(D) It should only report it in its annual report.

Ans :

(B) It should inform its clients of any such penal action.
The code of conduct emphasizes transparency and accountability in the merchant banker's relationship with its clients. If SEBI takes any penal action against a merchant bank, the bank is obligated to inform its clients about it. This ensures that clients are aware of the regulatory standing and track record of the intermediary they are dealing with.

NODIA

Oct/Nov 2016

53. Assertion (A): A key difference between merchant banks and commercial banks is that merchant banks primarily undertake fee-based business.
Reason (R): Commercial banks mainly undertake funding business, where their income is derived from the spread between interest earned on assets and interest paid on liabilities.

(A) Both (A) and (R) are true and (R) provides the correct and direct explanation for (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is a true statement, but the reasoning provided in (R) is factually false.
(D) (A) is a false statement, but the reasoning provided in (R) is factually true.

Ans :

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
Both statements are factually correct descriptions of the respective business models. Merchant banks earn fees for advisory and management services. Commercial banks earn from the interest spread on their funding business. However, Reason (R) describes the commercial bank model; it does not directly explain why the merchant bank model is fee-based. They are two separate, contrasting facts.

strategic financial advice to help a company achieve its financial and operational goals.

Oct/Nov 2016

69. According to the SEBI Code of Conduct, a merchant banker should develop its own internal code of conduct for what purpose?

(A) To submit it to the RBI for approval.
(B) For governing its internal operations.
(C) To replace the SEBI-prescribed regulations.
(D) For publication in the company's annual report only.

Ans :

(B) For governing its internal operations.
SEBI regulations require a merchant bank to create its own internal code of conduct. The purpose of this internal code is to establish clear rules and procedures for its own staff and processes, ensuring that the firm's day-to-day activities are managed in a way that consistently aligns with the broader principles and regulations set by SEBI.

May/June 2014

70. All of the following are key policy requirements for merchant banks as per SEBI regulations EXCEPT:

(A) Submitting half-yearly unaudited financial results directly to the regulator, SEBI.
(B) Maintaining a minimum net worth of ₹5 crores for all four categories of registered merchant bankers.
(C) Prohibiting all directors and employees from trading based on unpublished price-sensitive information.
(D) Appointing a dedicated Compliance Officer to monitor and ensure ongoing regulatory compliance.

Ans :

(B) Maintaining a minimum net worth of ₹5 crores for all four categories of registered merchant bankers.
While a minimum net worth is a key requirement, the ₹5 crores threshold is specified only for Category I Merchant Bankers. The net worth requirements for other categories (II, III, and IV) are different and lower. Therefore, the statement that this amount applies to all categories is incorrect, making it the exception.

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Both statements accurately capture the fundamental difference in the operational focus between the two types of institutions. Merchant banks add value through strategic advice and management of complex financial processes, making them management-oriented. Commercial banks' profitability and stability depend on the performance of their assets (loans), making them asset-oriented.

May/June 2019

58. Which of the following statements regarding the development of merchant banking in India is incorrect?

(A) Grindlays Bank was the first to receive its merchant banking license from the RBI, which occurred in the year 1967.
(B) ICICI, a Development Financial Institution, was an early entrant, starting its merchant banking activities in 1973.
(C) State Bank of India started its Merchant Banking Division in 1970, prior to the Banking Commission's recommendation.
(D) The prominence of merchant banking grew significantly during the new issues market boom of the 1983-84 period.

Ans :

(C) State Bank of India started its Merchant Banking Division in 1970, prior to the Banking Commission's recommendation.
This statement is incorrect regarding the timeline. The State Bank of India started its Merchant Banking Division in 1972, not 1970. This move was a direct consequence of the recommendations made by the Banking Commission in 1972, which encouraged Indian banks to diversify into such services. Citibank started its division in 1970.

Oct/Nov 2011

59. A Category I Merchant Banker is acting as the lead manager for a public issue with a total underwriting commitment of ₹60 crores from various underwriters. What is the minimum underwriting obligation of this lead merchant banker?

(A) ₹3 crores
(B) ₹60 lakhs
(C) ₹5 crores
(D) ₹25 lakhs

Ans :

(D) ₹25 lakhs
The rule states the lead manager's obligation is 5% of the total underwriting commitment or ₹25 lakhs, whichever is less. In this case, 5% of ₹60 crores is ₹3 crores. Since ₹25 lakhs is less than ₹3 crores, the lead merchant banker's minimum underwriting obligation is limited to ₹25 lakhs.

May/June 2023

60. Based on the text describing the historical background of merchant banking: "The Italian merchant bankers introduced into England not only the bill of exchange, but also the institutions and techniques, connected with an organised money market. Merchant banking consisted initially of merchants, who assisted in financing the transactions of other merchants, in addition to their own trade."
What was the initial form of merchant banking?

(A) Raising large, long-term funds exclusively for governments and state-sponsored projects.
(B) Merchants assisting in financing the commercial transactions of other merchants.
(C) Underwriting the issuance of corporate bonds and other debt instruments for large companies.
(D) Managing the investment portfolios and inherited wealth for affluent private individuals and families.

Ans :

(B) Merchants assisting in financing the commercial transactions of other merchants.
The provided text explicitly states that merchant banking initially consisted of merchants who used their capital and expertise to help finance the commercial transactions of other merchants. This was an extension of their own trading activities. More complex functions like raising government funds or underwriting evolved much later in the development of merchant banking.

Oct/Nov 2016

61. Consider the following licenses obtainable from SEBI for merchant banking activities:

1. Debenture Trustee license, which is a mandatory requirement for all public issues of debt securities.
2. Banker to the Issue license, for the purpose of handling ASBA applications and managing fund collection.
3. Portfolio Manager license, which is automatically included as part of a Category

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May/June 2014

54. A lead merchant banker is managing a public issue. During the process, they discover that the issuing company's financial projections in the draft prospectus are overly optimistic and not supported by realistic assumptions. According to the SEBI Code of Conduct, what is the most appropriate course of action for the merchant banker?

(A) Proceed with the issue as planned to satisfy the client, ensuring the merchant bank earns its full fee.

(B) Quietly withdraw from the issue management assignment without informing the client of the specific reasons.

(C) Report the client to SEBI immediately for attempting to provide potentially misleading information to investors.

(D) Advise the client to correct the projections to be fair and realistic, as part of rendering the best advice.

Ans :

(D) Advise the client to correct the projections to be fair and realistic, as part of rendering the best advice.

The Code of Conduct obligates a merchant banker to maintain high standards of integrity and fairness and to render the best possible advice. In this scenario, the appropriate action is to advise the client to rectify the misleading projections to ensure the prospectus is accurate, thereby protecting investor interests and upholding professional ethics.

Oct/Nov 2022

55. A merchant bank is found to be discriminating among its clients by offering preferential advice to a select few. Which principle is it violating?

(A) The SEBI Code of Conduct.

(B) The requirement to appoint a Compliance Officer.

(C) The capital adequacy norms.

(D) The licensing requirement for a portfolio manager.

Ans :

(A) The SEBI Code of Conduct.

The SEBI Code of Conduct explicitly states that a merchant bank "Should not discriminate among the clients." By providing preferential treatment or advice to some clients over others, the bank is in direct violation of this core ethical principle, which is designed to ensure fairness and equal treatment for all parties engaging its services.

May/June 2005

56. Match the Merchant Banker Category in List-I with its permitted scope of activity in List-II.

	List-I (Category)		**List-II (Permitted Activity)**
P.	Category I	1.	Can act only as advisor or consultant
Q.	Category II	2.	Can act as underwriter, advisor, consultant
R.	Category III	3.	Can carry on any activity of issue management
S.	Category IV	4.	Can act as co-manager, underwriter, advisor but not lead manager.

(A) P-3, Q-4, R-2, S-1

(B) P-1, Q-2, R-3, S-4

(C) P-3, Q-2, R-4, S-1

(D) P-4, Q-3, R-1, S-2

Ans :

(A) P-3, Q-4, R-2, S-1

The matching correctly aligns each category with its defined scope. Category I can handle all issue management activities. Category II can act as a co-manager and underwriter but not a lead manager. Category III is restricted to underwriting and advisory roles. Category IV is limited to providing only advisory or consultancy services.

Oct/Nov 2018

57. Statement I: Merchant banks in India are primarily management-oriented, focusing on advisory services.

Statement II: Commercial banks in India are primarily asset-oriented, focusing on the quality of their loan portfolio.

(A) Only Statement I is correct.

(B) Only Statement II is correct.

(C) Both Statement I and Statement II are correct.

(D) Both Statement I and Statement II are incorrect.

Ans :

(C) Both Statement I and Statement II are correct.

NODIA

Oct/Nov 2018

65. What document does a merchant bank prepare and circulate to financial institutions when arranging loan syndication for a client?
(A) Project Information Memorandum (PIM).
(B) Draft Red Herring Prospectus (DRHP).
(C) Detailed Project Report (DPR).
(D) Annual Report.

Ans :

(A) Project Information Memorandum (PIM).
In a loan syndication process, after analyzing the client's needs, the merchant bank prepares a detailed Project Information Memorandum (PIM). This document contains all the relevant information about the project and the borrowing company, and it is circulated to potential lenders (banks and financial institutions) that might be interested in joining the lending syndicate.

May/June 2019

66. The text states: "Every merchant bank shall appoint a Compliance Officer to monitor compliance with prevailing Regulations." and "SEBI has the right to send inspecting authority to inspect books of accounts, records, etc., of merchant banks."
What do these two requirements collectively ensure?
(A) They ensure that all registered merchant banks are able to achieve maximum profitability each year.
(B) They establish a dual mechanism of internal and external regulatory oversight.
(C) They ensure that merchant banks consistently maintain a high credit rating from rating agencies.
(D) They ensure that merchant banks only associate with other entities that are also registered with SEBI.

Ans :

(B) They establish a dual mechanism of internal and external regulatory oversight.
These two rules establish a comprehensive compliance framework. The appointment of a Compliance Officer ensures continuous internal monitoring of adherence to regulations. The right of SEBI to conduct inspections provides a mechanism for external oversight and verification. Together, they create a robust system to ensure merchant banks operate within the legal and regulatory boundaries.

Oct/Nov 2011

67. Consider the following as part of the SEBI Code of Conduct for a merchant banker:
1. Should fulfill all obligations in a professional and ethical manner.
2. Should not discriminate among the clients.
3. Should inform its clients of any penal action taken against it by SEBI.
4. Should be responsible for the act of its employees and agents.

Which of the above statements are part of the Code of Conduct?
(A) 1 and 2 only.
(B) 1, 3 and 4 only.
(C) 1, 2, 3 and 4.
(D) 2 and 4 only.

Ans :

(C) 1, 2, 3 and 4.
All four statements are explicitly listed as key codes of conduct under SEBI regulations. They cover the core principles of professionalism, ethical behavior, fairness (non-discrimination), transparency with clients regarding regulatory actions, and accountability for the actions of its staff, forming the bedrock of a merchant banker's professional responsibilities.

May/June 2023

68. A start-up company approaches a merchant bank for advice. The company has a promising business model but lacks a clear financial plan. The merchant bank advises them on the optimal mix of debt and equity, suggests strategies for seeking cheaper funds, and helps design a revival package. Which specific service is the merchant bank providing?
(A) Corporate Counseling and Advisory.
(B) Underwriting.
(C) Banker to the Issue.
(D) Portfolio Management.

Ans :

(A) Corporate Counseling and Advisory.
The services described in the case—advising on debt-to-equity ratio (capital structure), sourcing cheaper funds, and designing a revival package—are all classic examples of Corporate Counseling and Advisory services. This is a core merchant banking function where the bank provides

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(D) On a half-yearly basis.
The Monitoring Agency has a regulatory obligation to keep SEBI informed about the progress of the project and the utilization of issue proceeds. As per the guidelines, the agency must submit a return to SEBI on a half-yearly basis, using the specific format prescribed by the regulator, ensuring consistent and periodic oversight.

Oct/Nov 2012

38. Which of the following is NOT a responsibility of a Monitoring Agency?
(A) Ensuring the issue proceeds are utilized for the stated project.
(B) Determining the issue price of the securities.
(C) Keeping track of expenditure incurred from the collected amount.
(D) Reporting reasons for any delay in project implementation to SEBI.

Ans :

(B) Determining the issue price of the securities.
The role of a Monitoring Agency begins after the funds have been raised. Its responsibilities include tracking the use of proceeds, monitoring project implementation, and reporting deviations or delays to SEBI. Determining the issue price is a pre-issue function performed by the issuer in consultation with the lead merchant banker, not the Monitoring Agency.

May/June 2011

39. Which entities are permitted to act as a Monitoring Agency for public issues?
(A) Any Category I Merchant Banker.
(B) Any registered share broking firm.
(C) Only Financial Institutions.
(D) Any commercial bank, regardless of its role in the issue.

Ans :

(C) Only Financial Institutions.
The role of a Monitoring Agency is restricted to a specific category of entities to ensure credibility and expertise. The text specifies that only Financial Institutions are permitted to take on this responsibility. While banks may act as monitoring agencies, it is generally conditional on them also being the bankers to the issuer.

Oct/Nov 2020

40. A company, XYZ Ltd., is planning a public issue of ₹750 crores to fund its new manufacturing plant. The company's management is finalizing the intermediaries for the issue. Based on SEBI guidelines, which of the following actions is mandatory for XYZ Ltd.?
(A) It must appoint a Financial Institution to act as a Monitoring Agency for the issue.
(B) It must appoint a nationalized commercial bank to serve as the Debenture Trustee for the issue.
(C) It must ensure the appointed lead manager underwrites at least a minimum of 15% of the total issue size.
(D) It must obtain a separate, special license from the RBI due to the large size of the public issue.

Ans :

(A) It must appoint a Financial Institution to act as a Monitoring Agency for the issue.
The case states the issue size is ₹750 crores, which is greater than the ₹500 crores threshold set by SEBI. Therefore, it is mandatory for the issuing company, XYZ Ltd., to appoint a Monitoring Agency to oversee the utilization of the issue proceeds. This agency is typically a Financial Institution, ensuring independent oversight of the project's funding.

May/June 2022

41. In the context of corporate counseling, what financial aspect might a merchant bank advise a client on?
(A) Overseeing the daily operational management and logistics of the client's factory and production.
(B) Formulating and implementing the hiring policies for the client's human resources department.
(C) Developing and executing the comprehensive marketing strategy for the client's consumer products.
(D) Determining the optimal debt-to-equity ratio and overall capital structure.

Ans :

(D) Determining the optimal debt-to-equity ratio and overall capital structure.
Corporate counseling by merchant banks focuses on high-level financial strategy. This

NODIA

CHAPTER 36
Derivatives Market

Oct/Nov 2014

1. According to the introductory text, which of the following are described as common types of derivatives that can be either Over the Counter (OTC) or exchange-traded instruments?
   (A) Bonds, debentures, stocks, and equities
   (B) Forwards, futures, options, and swaps
   (C) Treasury bills, commercial papers, and certificates of deposit
   (D) Mutual funds, exchange-traded funds, and index funds

   Ans :

   (B) Forwards, futures, options, and swaps
   The introduction clearly identifies derivatives as financial instruments whose values are based on an underlying asset. It explicitly lists forwards, futures, options, and swaps as common types of derivatives. These instruments are used for hedging risks and for speculation and can be traded either on an exchange or over the counter, covering the main categories discussed.

May/June 2007

2. As per the guidelines issued by the RBI, which of the following is NOT a defining characteristic of a derivative?
   (A) It requires a significant initial net investment comparable to other contract types.
   (B) Its value changes in response to the change in a specified underlying variable.
   (C) It is settled at a future date.
   (D) It requires no initial net investment or a relatively small one.

   Ans :

   (A) It requires a significant initial net investment comparable to other contract types.
   The RBI's definition of a derivative explicitly states that it is a financial instrument that requires "no initial net investment or little initial net investment relative to other types of contracts". Therefore, requiring a significant initial investment is contrary to this core characteristic. The other options accurately reflect the RBI's definition provided in the text.

Oct/Nov 2025

3. What is the definition of a 'derivative' under Section 2(ac) of the Securities Contract Regulation Act (SCRA), 1956?
   (A) A contract that exclusively derives its value from commodity prices.
   (B) A security representing ownership in a publicly-traded corporation.
   (C) A contract which derives its value from the prices, or index of prices, of underlying securities.
   (D) A debt instrument issued by a government to finance its spending.

   Ans :

   (C) A contract which derives its value from the prices, or index of prices, of underlying securities.
   Section 2(ac) of the SCRA, 1956, provides a two-part definition for a derivative. One part defines it as "a contract which derives its value from the prices, or index of prices, of underlying securities". This definition is specific to derivatives based on securities and is a key legal definition for financial derivatives in India.

May/June 2021

4. Based on the text, which ancient civilization is credited with using clay tokens and tablets to record delivery dates for goods, resembling the first examples of futures contracts?
   (A) The ancient Greeks in Athens
   (B) The ancient Romans in the Roman Empire
   (C) The feudal Japanese in the Dojima Rice Exchange
   (D) The people of Sumer in the Tigris and Euphrates River region

   Ans :

   (D) The people of Sumer in the Tigris and Euphrates River region
   The chapter's history section states that between 4500 BC and 4000 BC, the people of Sumer used

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The chapter explains that if a corporate buys an FRA, it "undertakes to pay a particular fixed rate and receives a floating rate." This action effectively hedges against any rise in interest rates. By locking in a fixed borrowing cost, the company is protected if market interest rates increase before its borrowing period begins.

May/June 2006

32. What fundamental right does an option contract give to its buyer (holder)?

(A) The right, but not the obligation, to buy or sell the underlying asset.

(B) The obligation to buy or sell the underlying asset.

(C) The right and the obligation to buy or sell the underlying asset.

(D) The obligation to pay the strike price at expiration.

Ans :

(A) The right, but not the obligation, to buy or sell the underlying asset.

The definition of an option explicitly states it is a contract that "gives the buyer (holder) the right, but not the obligation, to buy or sell specified quantity of the underlying assets, at a specific (strike) price, on or before, a specified time (expiration date)." This is the key feature that differentiates options from forwards and futures.

Oct/Nov 2017

33. In options terminology, what is the 'Strike Price'?

(A) The price paid by the buyer to acquire the option contract.

(B) The specified price at which the underlying asset can be bought or sold.

(C) The current market price of the underlying asset.

(D) The total number of outstanding option contracts in the market.

Ans :

(B) The specified price at which the underlying asset can be bought or sold.

The 'Strike Price' or 'Exercise Price' is defined as the specified or pre-determined price of the underlying asset at which the option holder can exercise their right to buy (in a call option) or sell (in a put option). This price is fixed within the contract and is a critical determinant of the option's value.

May/June 2008

34. Match List-I (Option Type) with List-II (Description).

List-I

P. Call Option

Q. Put Option

R. American Option

S. European Option

List-II

1. Can be exercised only on the expiration day.
2. Gives the buyer the right to SELL the underlying asset.
3. Can be exercised anytime on or before the expiration date.
4. Gives the buyer the right to BUY the underlying asset.

(A) P-4, Q-2, R-3, S-1

(B) P-2, Q-4, R-1, S-3

(C) P-4, Q-2, R-1, S-3

(D) P-2, Q-4, R-3, S-1

Ans :

(A) P-4, Q-2, R-3, S-1

A Call Option (P) gives the right to BUY (4). A Put Option (Q) gives the right to SELL (2). An American Option (R) can be exercised anytime on or before expiry (3). A European Option (S) can be exercised only on the expiration day (1). This matching correctly aligns each term with its definition provided in the text.

Oct/Nov 2013

35. Who is the 'option seller/writer' in an options transaction?

(A) The party who is obligated to perform if the option buyer decides to exercise the option.

(B) The party who holds the right to buy or sell the underlying asset at their discretion.

(C) An intermediary, such as a broker, who facilitates the option trade without taking on any risk.

(D) The exchange authority that determines the official strike price of the option contract.

Ans :

(A) The party who is obligated to perform if the option buyer decides to exercise the option.

The text defines the option seller or writer as the one who is obligated to either sell the underlying asset (in the case of a call option) or buy the underlying asset (in the case of a put option) if the option holder decides to exercise their right.

NODIA

This followed the final approval granted by the Securities and Exchange Board of India (SEBI) in May 2001, which was based on the recommendations made by the L. C. Gupta Committee, a key body in the development of India's derivatives market structure.

May/June 2012

10. Arrange the following events related to the launch of derivatives in India in chronological order:

1. Launch of futures contracts on individual stocks.
2. Commencement of trading in BSE Sensex options.
3. Commencement of derivatives trading on NSE with S&P CNX Nifty Index futures.
4. Commencement of trading in options on individual securities.

(A) 3, 2, 4, 1
(B) 1, 2, 3, 4
(C) 3, 4, 2, 1
(D) 2, 3, 1, 4

Ans :

(A) 3, 2, 4, 1
According to the text, derivatives trading on NSE with S&P CNX Nifty Index futures began on June 12, 2000 (3). Trading in BSE Sensex options commenced on June 4, 2001 (2). Trading in options on individual securities started in July 2001 (4). Finally, futures contracts on individual stocks were launched in November 2001 (1).

Oct/Nov 2010

11. Based on Table 36.1 Global Derivatives Market, what was the outstanding value of Over the Counter (OTC) Foreign Exchange derivatives as of 30th June 2021?
(A) USD 34,003 Bn
(B) USD 53,266 Bn
(C) USD 466,494 Bn
(D) USD 609,996 Bn

Ans :

(D) USD 609,996 Bn
Table 36.1, sourced from BIS Statistics, presents the outstanding value of the global derivatives market as of June 30, 2021. The table categorizes derivatives into Exchange Traded and Over the Counter (OTC). Under the OTC category, the value for Foreign Exchange derivatives is explicitly listed as USD 609,996 billion, making it the largest segment shown.

May/June 2005

12. According to Table 36.2 Indian Derivatives Market, which type of derivative had the highest outstanding value as of 26th November 2021?
(A) Foreign Currency
(B) Equity
(C) Interest Rate Futures
(D) Commodity Futures

Ans :

(B) Equity
Table 36.2, sourced from NSE Statistics, details the outstanding values in the Indian derivatives market. It shows the value for Equity derivatives as INR 1,65,76,456 lakhs, Foreign Currency as INR 46,42,939 lakhs, and Interest Rate Futures as INR 2,133 lakhs. Clearly, Equity derivatives had the highest outstanding value among the listed categories.

Oct/Nov 2022

13. Which of the following is NOT listed as a form that an underlying asset for a derivative instrument can assume?
(A) Precious metals like gold and silver
(B) Bonds and shares of companies
(C) Real estate properties
(D) Over-the-Counter (OTC) money market products, such as loans

Ans :

(C) Real estate properties
The text provides a comprehensive list of potential underlying assets for derivative instruments. This list includes commodities, precious metals, natural resources, foreign exchange rates, various types of bonds, shares, stock indexes, and even OTC money market products like loans or deposits. However, real estate properties are not mentioned in this specific list provided in the chapter.

May/June 2018

14. What is the key feature of exchange-traded derivative contracts that distinguishes them from Over-the-Counter (OTC) contracts?
(A) Customisation of contract terms
(B) Direct negotiation between counterparties
(C) Lower level of regulatory oversight
(D) Standardisation of contracts

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Ans :

(A) The investor does not exercise the option and loses the premium of INR 125.
Since the market price (INR 2800) is higher than the strike price (INR 2300), the put option holder will not exercise the right to sell at the lower price. They would prefer to sell in the market. The option expires unutilised, and the investor's loss is limited to the premium of INR 125 paid.

Oct/Nov 2023

41. According to Table 36.4 Differences between Call and Put Options, what is the obligation of an option seller/writer in a Put Option?
(A) To sell the underlying asset at the specified price.
(B) To choose whether to buy or sell the underlying asset.
(C) To pay a premium to the option holder.
(D) To buy the underlying asset from the option holder at the specified price.

Ans :

(D) To buy the underlying asset from the option holder at the specified price.
Table 36.4 clearly outlines the roles of the buyer and seller for both call and put options. For a Put Option, the 'Option seller or option writer' "Has the obligation to buy the underlying asset (from the option holder) at the specified price." This is the counterpart to the holder's right to sell.

May/June 2019

42. What is the fundamental concept behind a swap transaction in financial markets?
(A) The purchase of an asset with the obligation to sell it back later.
(B) The exchange of one financial instrument or cash flows for another between parties.
(C) A grant of a right to buy an asset without any obligation.
(D) A standardised agreement to trade an asset on a public exchange.

Ans :

(B) The exchange of one financial instrument or cash flows for another between parties.
The chapter defines a swap as "an exchange of one financial instrument for another between the parties concerned." It simplifies this as a transaction to exchange one thing for another, or 'barter'. In financial markets, this typically involves two parties contracting to exchange cash flows at a predetermined time as per a pre-arranged formula.

Oct/Nov 2014

43. Assertion (A): Companies requiring foreign currency borrowings may use a currency swap to their advantage.
Reason (R): A currency swap allows companies to leverage their natural advantage of borrowing cheaply in their home currencies and then swap those funds into the required foreign currency.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.
Assertion (A) is true as stated in the text. Reason (R) correctly explains the mechanism. Companies can borrow more cheaply in their domestic market where they are well-known and then engage in a currency swap to obtain the foreign currency they need, effectively lowering their borrowing cost, as illustrated by the ABC and XYZ example.

May/June 2007

44. ABC Ltd., a US subsidiary of an Indian company, needs USD 100,000. It can borrow in the US at 6% or its Indian parent can borrow in India at 12%. XYZ Ltd., an Indian subsidiary of a US company, needs INR 75 lakhs and can borrow in India at 15% or its US parent can borrow in the US at 4%. If they enter a currency swap, what interest rate does ABC Ltd.'s subsidiary effectively pay on its USD borrowing?
(A) 6%
(B) 4%
(C) 12%
(D) 15%

Ans :

(B) 4%
The case describes a comparative advantage. ABC's parent borrows INR at its favorable rate of 12%, and XYZ's parent borrows USD at its favorable rate of 4%. In the swap, ABC gets the USD funds borrowed by XYZ's parent. As per

NODIA

Oct/Nov 2019

19. Which function of derivatives involves the use of future and forward contract prices to determine the future spot prices for a commodity?
(A) Transfer of Risk
(B) Hedging Price Risk
(C) Price Discovery
(D) Higher Leverage

Ans :

(C) Price Discovery
The chapter describes 'Price Discovery' as a key function of derivatives. It explains that derivative contracts, particularly future and forward contracts, help in determining the prices of the underlying assets. The prices established in these contracts are used to estimate future spot prices, thus aiding in the price discovery process for the underlying commodity or asset.

May/June 2009

20. How do derivatives provide higher leverage compared to other financial instruments?
(A) The capital required to take positions is low, such as a premium for options.
(B) The entire value of the underlying asset must be paid upfront, similar to purchasing stocks.
(C) They are guaranteed by a central government agency, which reduces the need for private capital.
(D) They offer fixed returns that are determined at the start, irrespective of later market movements.

Ans :

(A) The capital required to take positions is low, such as a premium for options.
The text explains that derivative instruments provide higher leverage because the capital required to take a position is low relative to the contract's notional value. For instance, in a futures contract, only 20-40% of the contract value is needed as margin, and for options, only the premium is required for trading, amplifying potential gains and losses.

Oct/Nov 2011

21. Consider the following statements regarding the functions of derivatives:
1. They help in transferring risk from those with a low-risk appetite to those with a higher risk appetite.
2. The cost of trading in derivative instruments is typically high compared to other financial market segments.
3. They can provide access to assets and markets that are otherwise hard to trade.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 3 only
Statement 1 is correct as derivatives are effective risk management tools for risk transfer. Statement 3 is also correct as they enable business in hard-to-trade assets, like using interest rate swaps to get better rates. Statement 2 is incorrect; the text explicitly states that the cost of trading derivatives is "quite low" compared to other segments.

NODIA

May/June 2010

22. Examine the diagram Figure 36.1 Types of Derivatives. According to this classification, under which main category do Credit Default Swaps fall?
(A) Exchange Traded
(B) Over the Counter
(C) Commodity derivatives
(D) Financial derivatives under Exchange Traded

Ans :

(B) Over the Counter
In the provided diagram (Figure 36.1), derivatives are first split into 'Financial derivatives' and 'Commodity derivatives'. Financial derivatives are then bifurcated into 'Exchange Traded' and 'Over the Counter'. Credit Default Swaps (CDS) are shown as a sub-type under 'Swaps', which itself is a category under the 'Over the Counter' branch of financial derivatives.

Oct/Nov 2024

23. What defines a forward contract?
(A) A standardized contract traded on a formal exchange for a specific quantity of an asset to be delivered on a future settlement date.
(B) A contract giving the buyer the right, but not the obligation, to buy or sell a specific quantity of an asset at a pre-agreed price on or before a future date.
(C) A contract where two parties agree to a specified trade at a specified point in the future, negotiated directly and settled at

clay tokens in clay vessels, and later clay writing tablets, to represent commodities and record delivery dates. These practices are considered the first examples of financial derivatives, resembling modern futures contracts for traded goods.

Oct/Nov 2009

5. Who is cited as the world's first oil derivatives trader in 600 BC, having used his knowledge to negotiate what were effectively call options on olive oil presses?
(A) Aristotle
(B) Plato
(C) Thales of Miletus
(D) Socrates

Ans :

(C) Thales of Miletus
The text provides a historical account of the first recorded derivative transaction dating back to around 600 BC in ancient Greece. The philosopher Thales of Miletus predicted a bumper olive harvest and negotiated contracts that gave him the right to use olive oil presses, effectively creating call options to profit from the rising price of oil.

May/June 2016

6. Which institution, founded in 1848, became a prominent exchange for trading a wide range of products from agricultural commodities to metals in the 20th century?
(A) The Dojima Rice Exchange
(B) The Chicago Board of Trade (CBOT)
(C) The Antwerp Bourse
(D) The Bombay Cotton Trade Association

Ans :

(B) The Chicago Board of Trade (CBOT)
The chapter mentions that the modern approach to futures trading crossed over to North America, leading to the founding of the Chicago Board of Trade (CBOT) in 1848. From the early 20th century, this exchange became a major center for trading various product types, including agricultural commodities and metals, influencing modern derivatives markets.

Oct/Nov 2018

7. In the context of the history of derivatives in India, which organization started futures trading in 1875?
(A) National Stock Exchange (NSE)
(B) Securities and Exchange Board of India (SEBI)
(C) Bombay Stock Exchange (BSE)
(D) Bombay Cotton Trade Association

Ans :

(D) Bombay Cotton Trade Association
The text states that derivatives markets have existed in India for a long time. Specifically, in the area of commodities, the Bombay Cotton Trade Association is credited with starting futures trading as far back as 1875. This marks a significant early milestone in the history of Indian derivative markets, long before modern stock exchanges were established.

May/June 2023

8. The introduction of financial derivatives trading in India was initiated by the promulgation of which ordinance in 1995?
(A) The Securities Laws (Amendment) Ordinance, 1995
(B) The SEBI (Derivatives) Ordinance, 1995
(C) The Banking Regulation (Amendment) Ordinance, 1995
(D) The Foreign Exchange Management Ordinance, 1995

Ans :

(A) The Securities Laws (Amendment) Ordinance, 1995
According to the text, the first major step toward introducing financial derivatives trading in India was the promulgation of the Securities Laws (Amendment) Ordinance in 1995. This ordinance was crucial as it provided for the withdrawal of the prohibition that was previously placed on options in securities, paving the way for their formal introduction.

Oct/Nov 2006

9. Derivatives trading commenced in India in June 2000 after SEBI granted approval based on the recommendations of which committee?
(A) The Narasimham Committee
(B) The Rangarajan Committee
(C) The L. C. Gupta Committee
(D) The Tarapore Committee

Ans :

(C) The L. C. Gupta Committee
The chapter explicitly states that derivatives trading commenced in India in June 2000.

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Oct/Nov 2015

27. Referring to Table 36.3 Differences between Futures and Forward Contracts, which of the following is a characteristic of a Forward Contract?
(A) Standardised amounts
(B) Traded on exchanges
(C) Initial margin required
(D) Flexible maturities

Ans :

(D) Flexible maturities
Table 36.3 directly compares the features of futures and forward contracts. In the column for Forward Contracts, the characteristics listed include 'Non-standard amounts', 'Flexible maturities', 'Traded OTC', 'No margin requirement', and 'Counterparty in direct contact'. Therefore, flexible maturities is a key feature that distinguishes them from the fixed maturities of futures contracts.

May/June 2013

28. Company XYZ, based in India, has a projected receipt of USD 1 million in September. To hedge against the risk of the USD depreciating against the INR, the company sells 1,000 USD futures contracts in August at a rate of 75.50. If the USD depreciates to 74.50 in September, what is the outcome for Company XYZ?
(A) The company benefits from the depreciation and sells its USD at the market rate of 74.50.
(B) The company's receipt is protected, and it gets to sell its USD at the locked-in rate of 75.50.
(C) The company incurs a loss because it has to buy USD at 75.50.
(D) The company forfeits its receipt as the futures contract is cancelled.

Ans :

(B) The company's receipt is protected, and it gets to sell its USD at the locked-in rate of 75.50.
The case illustrates hedging a receivable. By selling futures contracts, Company XYZ locked in a selling rate of 75.50. When the USD depreciates to 74.50, the company is protected from this unfavorable movement. It will effectively sell its USD at the higher, locked-in futures rate, thus successfully hedging against the currency risk, as explained in the example.

Oct/Nov 2021

29. What is a Forward Rate Agreement (FRA)?
(A) An option to enter into a loan agreement at a predetermined interest rate.
(B) A financial contract to exchange interest payments based on a fixed interest rate at a future date.
(C) A contract for the physical delivery of a foreign currency at a future date.
(D) An agreement to swap principal amounts in two different currencies.

Ans :

(B) A financial contract to exchange interest payments based on a fixed interest rate at a future date.
The text defines an FRA as being "like a forward contract on the interest rate." It is a financial contract designed to exchange interest payments, based on a fixed interest rate agreed upon today for a notional principal amount, for a future period. It helps in hedging against adverse movements in interest rates.

May/June 2024

30. A corporate that needs to borrow for a period of 3 months, starting 6 months from now, would enter into which type of Forward Rate Agreement (FRA)?
(A) A 3×6 FRA
(B) A 3×9 FRA
(C) A 6×3 FRA
(D) A 6×9 FRA

NODIA

Ans :

(D) A 6×9 FRA
The convention for FRAs is that an A × B FRA refers to a lending/borrowing period that starts in 'A' months and ends in 'B' months. For a borrowing period of 3 months (9 - 6 = 3) that starts 6 months from today, the correct notation is a 6×9 FRA.

Oct/Nov 2008

31. If a corporate house buys an FRA, what risk is it hedging against?
(A) A depreciation of the domestic currency
(B) A rise in interest rates
(C) A fall in interest rates
(D) A fall in the value of the notional principal

Ans :

(B) A rise in interest rates

maturity.
(D) An agreement between two parties to exchange a series of future interest payments, based on a specified notional principal amount.

Ans :

(C) A contract where two parties agree to a specified trade at a specified point in the future, negotiated directly and settled at maturity.
A forward contract is defined as an agreement where two parties agree to a specified trade at a predetermined rate, with settlement taking place at an agreed future date. The text highlights that it is an OTC agreement, negotiated directly between buyer and seller, and its terms can be tailored to suit their specific needs.

May/June 2017

24. In a forward contract, what is the obligation of the parties once the contract is negotiated?
(A) Either party can choose to walk away unilaterally from the contract without financial consequences.
(B) Only the buyer is legally obliged to fulfill the contractual terms, while the seller has a choice.
(C) Only the seller is legally obliged to fulfill the contractual terms, while the buyer has a choice.
(D) Both parties are legally obliged to fulfill their contractual terms and cannot walk away unilaterally.

Ans :

(D) Both parties are legally obliged to fulfill their contractual terms and cannot walk away unilaterally.
The text explicitly states, "Neither party can walk away unilaterally from the contract, i.e., both parties are obliged to fill their contractual terms." This bilateral obligation is a fundamental characteristic of forward contracts, distinguishing them from options, where the holder has a right but not an obligation to exercise the contract.

Oct/Nov 2005

25. In the Indian context, what is generally required for booking a forward contract?
(A) A genuine underlying in the form of a firm order, Letter of Credit, or documentary bill.
(B) A deposit of initial and variation margin with a central clearing house.
(C) Specific prior approval for each contract from the Securities and Exchange Board of India (SEBI).
(D) A minimum investment-grade credit rating for both counterparties involved in the trade.

Ans :

(A) A genuine underlying in the form of a firm order, Letter of Credit, or documentary bill.
The chapter specifies that "In the Indian context, all forward contract bookings must be with a genuine underlying in the form of a firm order, Letter of Credit, documentary bill, etc." This requirement ensures that forward contracts are used for genuine hedging purposes, although some exceptions exist for customers with large trading volumes.

May/June 2020

26. What is the primary difference between a futures contract and a forward contract?
(A) A futures contract is a private OTC agreement between two parties, while a forward contract is a standardized instrument traded on an exchange.
(B) A futures contract is a standardised forward contract traded on an exchange, while a forward contract is a customized OTC agreement.
(C) A futures contract always involves the physical delivery of the underlying asset, while a forward contract is exclusively cash-settled at maturity.
(D) There is no fundamental difference in their structure or market; the terms are used interchangeably depending on the underlying asset.

Ans :

(B) A futures contract is a standardised forward contract traded on an exchange, while a forward contract is a customized OTC agreement.
The text defines a futures contract as "a standardised forward contract" that is traded on an exchange between parties not known to each other. This standardisation of amounts, maturities, and other terms contrasts sharply with forward contracts, which are customised, privately negotiated (OTC) agreements between two known parties, as highlighted in Table 36.3.

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They receive the premium for taking on this obligation.

May/June 2015

36. An investor buys a European call option on Infosys at a strike price of INR 1500, paying a premium of INR 100. If the market price of Infosys on the expiry day is INR 1800, what is the investor's net profit per share?
(A) INR 100
(B) INR 300
(C) INR 400
(D) INR 200

Ans :

(D) INR 200
The investor will exercise the option, buying the share at the strike price of INR 1500 and selling it at the market price of INR 1800, for a gross profit of INR 300. The net profit is calculated as the gross profit minus the premium paid. Therefore, the net profit is (1800 - 1500) - 100 = 200.

Oct/Nov 2012

37. In the same Infosys call option scenario (strike INR 1500, premium INR 100), what happens if the stock price on expiry is INR 1000?
(A) The investor exercises the option and incurs a loss of INR 500.
(B) The investor does not exercise the option and breaks even.
(C) The option seller forces the investor to buy the share at INR 1500.
(D) The investor does not exercise the option and loses only the premium of INR 100.

Ans :

(D) The investor does not exercise the option and loses only the premium of INR 100.
If the market price (INR 1000) is below the strike price (INR 1500), the call option holder will not exercise the right to buy at INR 1500, as it is cheaper to buy from the market. In this case, the option expires worthless, and the buyer's loss is limited to the premium of INR 100 paid upfront.

May/June 2011

38. A put option gives the holder the right to do what?
(A) Sell a specified quantity of the underlying asset at the strike price.
(B) Buy a specified quantity of the underlying asset at the strike price.
(C) Receive a fixed interest payment from the option writer.
(D) Exchange one currency for another at a future date.

Ans :

(A) Sell a specified quantity of the underlying asset at the strike price.
The text defines a put option as a contract that "gives the holder (buyer), the right to SELL specified quantity of the underlying asset, at the strike price, on or before expiry date." The seller of the put option has the corresponding obligation to buy the asset from the holder if the option is exercised.

Oct/Nov 2020

39. An investor buys a European put option on Reliance at a strike price of INR 2300 and pays a premium of INR 125. If the market price of Reliance on the expiry date is INR 1800, what is the investor's net profit per share?
(A) INR 500
(B) INR 2300
(C) INR 375
(D) INR 125

Ans :

(C) INR 375
The investor will exercise the put option, selling the share at the strike price of INR 2300. They can acquire the share in the market at INR 1800. The gross profit is the difference (INR 2300 - INR 1800 = INR 500). The net profit is this gross profit minus the premium paid: 500 - 125 = 375.

May/June 2022

40. In the same Reliance put option scenario (strike INR 2300, premium INR 125), what is the outcome if the market price on expiry is INR 2800?
(A) The investor does not exercise the option and loses the premium of INR 125.
(B) The investor exercises the option and makes a profit.
(C) The investor exercises the option and incurs a large loss.
(D) The investor does not exercise the option and breaks even.

NODIA

Ans :

(D) Standardisation of contracts
The text explicitly states that "The key feature of exchange-traded derivative contracts is the standardisation of the contracts." This means the terms and conditions, such as expiry dates and contract amounts, are precisely specified by the exchange. This contrasts with OTC contracts, which are typically customised to meet the specific needs of the counterparties.

Oct/Nov 2016

15. In an exchange-traded derivatives market, what is the function of the cash deposit required from participants, which is known as a margin?
(A) To allow the clearing house to provide a credit guarantee
(B) To pay for the exchange's operational expenses
(C) To serve as a premium for gaining access to the market
(D) To be invested by the exchange for generating profits

Ans :

(A) To allow the clearing house to provide a credit guarantee
The chapter explains that standardisation in exchange-traded markets facilitates efficient clearing and settlement. The clearing house provides a credit guarantee against counterparty default, and it can offer this guarantee "through the requirement of a cash deposit called a margin." This margin acts as collateral to secure the performance of the contract obligations by the parties involved.

May/June 2014

16. Which of the following statements about Over-the-Counter (OTC) derivative markets is incorrect?
(A) OTC derivative contracts are not standardised.
(B) OTC markets have a higher level of regulation than exchange-traded markets.
(C) A forward foreign exchange contract is a good example of an OTC derivative.
(D) The ability to customize OTC contracts offers flexibility to the parties.

Ans :

(B) OTC markets have a higher level of regulation than exchange-traded markets.
The text clearly states that "OTC markets have a lower level of regulation than exchange-traded markets." Although it notes that regulatory oversight has increased since the 2008 Global Financial Crisis, the fundamental characteristic of OTC markets is less stringent regulation compared to the highly regulated environment of formal exchanges, which enforce standardisation and clearing mechanisms.

Oct/Nov 2007

17. Which category of derivatives market participants uses these instruments primarily to reduce or eliminate the risk associated with the price of an asset?
(A) Speculators
(B) Hedgers
(C) Arbitrageurs
(D) Market-makers

Ans :

(B) Hedgers
The chapter defines hedgers as participants who "use derivatives markets to reduce or eliminate the risk associated with price of an asset." It further notes that the majority of participants in the derivatives market belong to this category. Their primary goal is risk management rather than profiting from price movements, which is the motive of speculators.

May/June 2025

18. A market participant who takes offsetting positions in two different markets to lock in a profit from a price discrepancy between an asset's future price and its cash price is known as a(n):
(A) Arbitrageur
(B) Hedger
(C) Speculator
(D) Dealer

Ans :

(A) Arbitrageur
The text defines arbitrageurs as participants whose behavior is guided by the desire to take advantage of a discrepancy between prices of the same or competing assets in different markets. If they observe the futures price getting out of line with the cash price, they will take offsetting positions to lock in a risk-free profit.

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the arrangement, the subsidiary of ABC remits interest on USD 100,000 at 4% to the HO of XYZ.

Oct/Nov 2025

45. Based on the data in Table 36.5 Example of Cost Savings using Currency Swap, what is the total interest cost saving for XYZ Ltd. by using the currency swap?
(A) INR 2,25,000
(B) USD 2,000
(C) USD 4,000
(D) INR 9,00,000

Ans :

(A) INR 2,25,000
Table 36.5 clearly tabulates the cost savings. For XYZ Ltd, the interest cost without the swap would have been INR 11,25,000 (15% on INR 75,00,000). With the currency swap, its interest outgo is INR 9,00,000 (remitting 12% on 75 lakhs to ABC's HO). The 'Cost savings' row for XYZ Ltd explicitly shows this difference as INR 2,25,000.

May/June 2021

46. What is an Interest Rate Swap (IRS)?
(A) An agreement to exchange the principal amount of a loan in two different currencies at maturity.
(B) An agreement where one stream of future interest payments is exchanged for another, based on a specified principal amount.
(C) A contract that gives the holder the right, but not the obligation, to receive a fixed interest rate.
(D) A financial derivative that provides insurance against the default of a borrower on their debt obligation.

Ans :

(B) An agreement where one stream of future interest payments is exchanged for another, based on a specified principal amount.
The text defines an Interest Rate Swap (IRS) as an agreement where one stream of future interest payments is exchanged for another, based on a specified notional principal amount. These swaps typically involve exchanging a fixed interest rate for a floating rate, or vice versa, to manage interest rate risk or reduce borrowing costs.

Oct/Nov 2009

47. A bank has mobilized a 5-year fixed-rate FCNR deposit at 3% and extended a 5-year loan linked to SOFR + 4%. To protect itself from a fall in SOFR, what type of IRS should the bank enter into?
(A) A fixed-to-floating IRS
(B) A floating-to-fixed IRS
(C) A currency swap
(D) A credit default swap

Ans :

(B) A floating-to-fixed IRS
The bank's risk is that its earnings from the floating-rate loan will fall while its cost on the fixed-rate deposit remains constant. To mitigate this, the bank needs to convert its floating-rate income into a fixed stream. The chapter describes this exact scenario as a reason to enter into an IRS to "convert the interest payable on the floating rate loan to fixed (floating to fixed IRS)."

May/June 2016

48. What is the primary purpose of a Credit Default Swap (CDS)?
(A) To allow an investor to offset or swap their credit risk with another investor.
(B) To speculate on interest rate movements.
(C) To exchange cash flows based on different currencies.
(D) To get higher leverage on equity investments.

Ans :

(A) To allow an investor to offset or swap their credit risk with another investor.
A Credit Default Swap (CDS) is defined as a financial derivative that allows an investor (lender) to "swap" or offset the credit risk of a borrower defaulting on a loan. The buyer of the CDS makes periodic premium payments to a seller, who agrees to reimburse the buyer if the borrower (reference entity) defaults.

Oct/Nov 2018

49. In a Credit Default Swap (CDS) transaction, the premium payment can be compared to what?
(A) The principal amount of a loan.
(B) The interest payment on a bond.
(C) The regular premiums paid on an insurance policy.
(D) The margin payment on a futures contract.

Ans :

(C) The regular premiums paid on an insurance policy.
The text explicitly states that "Most CDS contracts are maintained via an ongoing premium

NODIA

CHAPTER 37

Factoring, Forfaiting and Trade Receivables Discounting System (TReDS)

Oct/Nov 2014

1. According to the introductory overview, what is the primary distinction between factoring and forfaiting in terms of financing tenure?

(A) Factoring is for medium-term financing, while forfaiting is for short-term financing.

(B) Factoring is a tool for managing short-term receivables, while forfaiting is useful for medium-term financing.

(C) Both factoring and forfaiting are exclusively used for long-term financing needs.

(D) Factoring is used for financing capital goods, while forfaiting is for financing raw materials.

Ans :

(B) Factoring is a tool for managing short-term receivables, while forfaiting is useful for medium-term financing.

Factoring is designed to manage a company's entire short-term receivables portfolio, providing immediate liquidity against invoices. In contrast, forfaiting is structured for medium-term financing, typically for export transactions, and is characterized by its without recourse nature, offering the seller complete protection from non-payment risk over a longer credit period, unlike the shorter cycles of factoring.

May/June 2019

2. What is the fundamental role of a factor in a full-service factoring arrangement?

(A) The factor manages credit control, sales ledger administration, collections, and assumes the risk of buyer default.

(B) The factor only provides finance against approved invoices and does not engage in collection or administrative activities.

(C) The factor's duties are restricted to sales ledger administration, while the seller must handle all collection efforts and retain all credit risk.

(D) The factor functions solely as a commission agent for product sales, offering no financing or receivables management services.

Ans :

(A) The factor manages credit control, sales ledger administration, collections, and assumes the risk of buyer default.

Full-service factoring is a comprehensive financial service where the factor assumes a multifaceted role. This includes not just financing but also managing the seller's sales ledger, undertaking collection efforts from the buyers, and providing credit protection by absorbing the loss in case of the buyer's failure to pay, thereby offering a complete receivables management solution.

Oct/Nov 2006

3. As per the Factoring Regulation Act, 2011, what does the term "factoring business" primarily entail?

(A) The business of a bank providing standard credit facilities against the security of receivables in its ordinary course.

(B) Any activity where an entity acts as a commission agent for the sale of agricultural produce or other goods, without acquiring the underlying debt.

(C) The acquisition of a company's receivables through assignment or by providing financing secured by them.

(D) Any operational activity related to the production, storage, or distribution of goods by the assignor company itself.

Ans :

(C) The acquisition of a company's receivables through assignment or by providing financing secured by them.

Section 2(j) of the Factoring Regulation Act, 2011, explicitly defines "factoring business" as the acquisition of a company's (assignor's) receivables. This is achieved either through an

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May/June 2005

54. Which of the following entities would be classified as a 'non-retail user' under the RBI's proposed CDS guidelines?
(A) A mutual fund.
(B) A small manufacturing firm with a net worth of INR 50 crore.
(C) An individual investor with a portfolio of corporate bonds.
(D) A retail trader on the stock exchange.

Ans :

(A) A mutual fund.
The text provides a specific list of entities classified as non-retail users. This list includes "insurance companies, pension funds, mutual funds, alternate investment funds, foreign portfolio investors." Other entities like large NBFCs and resident companies with a minimum net worth of INR 500 crores are also included, but mutual funds are explicitly named.

Oct/Nov 2022

55. As per the RBI guidelines on CDS, which of the following would be an eligible debt instrument to act as a reference obligation?
(A) Asset-backed securities
(B) Rated INR denominated corporate bonds
(C) Convertible bonds
(D) Bonds with a call option

Ans :

(B) Rated INR denominated corporate bonds
The guidelines specify a list of eligible debt instruments, which includes "Rated Indian Rupee (INR) denominated corporate bonds (listed and unlisted)." The text also explicitly states that instruments like asset-backed securities, mortgage-backed securities, convertible bonds, and bonds with call/put options "shall not be permitted as reference and deliverable obligations."

May/June 2018

56. Identify the institution that is NOT included in the list of 'market-makers' for CDS as per the RBI guidelines.
(A) Scheduled Commercial Banks
(B) Regional Rural Banks
(C) National Bank of Agriculture and Rural Development (NABARD)
(D) Export-Import Bank of India

Ans :

(B) Regional Rural Banks
The list of eligible market-makers includes Scheduled Commercial Banks but with a specific exclusion: "(except Small Finance Banks, Payment Banks, Local Area Banks and Regional Rural Banks)". It also includes institutions like Exim Bank and NABARD. Therefore, Regional Rural Banks are explicitly excluded from acting as market-makers in the CDS market.

Oct/Nov 2016

57. What is the primary purpose of the International Swaps and Derivatives Association (ISDA) Master Agreement?
(A) To set and publish the official price for all derivative transactions globally on a daily basis.
(B) To provide a standardized legal framework for documenting OTC derivative transactions between two parties.
(C) To act as a mandatory central clearing house and guarantor for all OTC derivative trades worldwide.
(D) To create and enforce specific regulations for the exchange-traded derivatives market in major economies.

Ans :

(B) To provide a standardized legal framework for documenting OTC derivative transactions between two parties.
The text describes the ISDA Master Agreement as a uniform document developed to mitigate legal risks in customised OTC derivatives. It is "a document agreed between two parties that sets out standard terms that apply to all the transactions entered into between those parties," designed to enable OTC derivatives to be documented fully and flexibly.

May/June 2014

58. The ISDA Master Agreement framework consists of several documents. Which document is used to contain elections, additions, and amendments to the pre-printed master agreement?
(A) The schedule
(B) The confirmation
(C) The definition booklet
(D) The credit support documentation

Ans :

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(B) Ancient Rome
(C) Ancient Greece
(D) The Egyptian Empire

Ans :

(A) The days of Hammurabi
The concept of factoring has a very long and rich history, with its earliest roots dating back around 4,000 years. Historical records indicate that practices functionally similar to modern factoring, involving agents managing sales and financing for producers, were present during the time of the Babylonian king Hammurabi, pre-dating its later development in ancient Rome and Europe.

Oct/Nov 2016

9. During the period of European colonization beginning in the 16th century, what was the primary role of factors?
(A) To finance the construction of colonial infrastructure.
(B) To act as mercantile agents for wealthy Roman producers.
(C) To manage the sale and delivery of goods for exporters of consumer goods.
(D) To provide funds to colonists for harvesting raw materials in the 18th century.

Ans :

(C) To manage the sale and delivery of goods for exporters of consumer goods.
In the 16th century, as European colonization expanded, exporters of consumer goods frequently employed mercantile agents known as "factors". These factors were instrumental in facilitating trade by managing the sale and delivery of their clients' goods in distant markets. Their role was crucial in helping exporters to increase their sales and expand their commercial reach during this era.

May/June 2014

10. In the 18th century, what was the significant role of merchant bankers in London in the context of factoring with the American colonies?
(A) They advanced funds to colonists against raw materials prior to their shipment and sale in Europe.
(B) They functioned as direct salesmen, traveling to the colonies to sell finished European goods directly to colonial buyers.
(C) They focused on logistics, providing warehousing and local distribution services for goods after their arrival from the colonies.
(D) They purchased receivables from colonial sales and then assigned these debts to local American factors for collection.

Ans :

(A) They advanced funds to colonists against raw materials prior to their shipment and sale in Europe.
During the 18th century, a key development in factoring involved merchant bankers in London and other European cities. They provided crucial financing to American colonists by advancing funds against raw materials such as cotton, furs, and timber. This prepayment enabled the colonists to continue their production activities without waiting for the goods to be sold in Europe.

Oct/Nov 2007

11. What major development in the second half of the 19th century substantially changed the role of American factors?
(A) The decline in the trade of cotton, furs, and timber.
(B) The widespread adoption of consignment-based sales to factors.
(C) The introduction of the Factoring Regulation Act.
(D) Advances in communication and transportation, enabling direct sales by salesmen.

Ans :

(D) Advances in communication and transportation, enabling direct sales by salesmen.
The latter half of the 19th century saw significant technological progress. Advances in communication and transport made it feasible for exporters' salesmen to sell goods directly to buyers, equipped with samples. This eliminated the exporters' need for the storage, marketing, and distribution services that factors traditionally provided, shifting the factor's role primarily towards financing receivables.

May/June 2025

12. Arrange the following events in the history of factoring in the correct chronological order:
1. Widespread, documented use in American colonies for raw materials.
2. Mercantile agents or "factors" employed by

NODIA

Ans :

(B) To transact futures and options to get extra leverage in betting on future price movements.
Speculators are defined as participants who "transact futures and options contracts to get extra leverage in betting on future movements in the price of an asset." Their goal is to profit from price changes, and in doing so, they accept higher potential gains and losses. This contrasts with hedgers, who seek to reduce risk.

Oct/Nov 2011

63. Consider the following two statements:
Statement I: Exchange-traded markets offer high transparency as transaction information is disclosed to the exchange and regulatory bodies.
Statement II: A key disadvantage of exchange-traded markets is a loss of flexibility due to the standardisation of contracts.
(A) Statement I is correct, but Statement II is incorrect.
(B) Statement II is correct, but Statement I is incorrect.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Ans :

(C) Both Statement I and Statement II are correct.
The text confirms both statements. It mentions that exchange-traded markets "have transparency as full information on the transactions is disclosed." It immediately follows this by stating, "This does mean a loss of privacy and, coupled with the standardisation, a loss of flexibility." Both are presented as key characteristics of these markets.

May/June 2010

64. Which of the following pairs of derivative type and market is incorrectly matched?
(A) Forward Contract - Over-the-Counter
(B) Currency Futures - Exchange Traded
(C) Interest Rate Swap - Over-the-Counter
(D) Options on Individual Stocks - Exclusively Over-the-Counter

Ans :

(D) Options on Individual Stocks - Exclusively Over-the-Counter
The text indicates that options on individual stocks are traded on exchanges. For example, it mentions that "trading in options on individual securities commenced in July 2001" on Indian exchanges. While customized options can exist OTC, they are a major product on exchanges. The other pairs are correctly matched as per the chapter's descriptions.

Oct/Nov 2024

65. A bank in India has raised funds by launching 5-year bonds with a fixed coupon rate. It uses these funds to finance corporates at a floating rate linked to SOFR. The bank is concerned that SOFR may decrease over time, reducing its earnings while its bond payments remain fixed. What derivative strategy should the bank employ?
(A) Enter into a fixed-to-floating Interest Rate Swap.
(B) Buy a Credit Default Swap on its corporate borrowers.
(C) Sell USD/INR futures contracts.
(D) Buy a call option on interest rates.

Ans :

(A) Enter into a fixed-to-floating Interest Rate Swap.
The bank's risk is a mismatch between its fixed-rate liability and floating-rate asset. The text describes this exact scenario: "This position can be mitigated by the bank entering into a fixed to floating IRS, through which, the fixed rate payable on the bonds can be converted into floating rate, through the IRS." This aligns its costs with its revenues.

May/June 2017

66. Identify the correct statement regarding derivative functions.
(A) Derivatives increase transaction costs because of their complexity.
(B) Derivatives help in hedging against unfavorable price movements of an underlying asset.
(C) The leverage provided by derivatives is lower than that of direct stock ownership.
(D) The price discovery function of derivatives is limited to commodity markets only.

Ans :

(B) Derivatives help in hedging against unfavorable price movements of an underlying asset.

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payment, similar to the regular premiums paid on an insurance policy." It further reinforces this by saying a CDS is, in effect, an insurance against non-payment, where the buyer shifts the risk of default to the seller for a fee (the premium).

May/June 2023

50. How many minimum parties are involved in a situation involving a credit default swap?
(A) Three
(B) One
(C) Two
(D) Four

Ans :

(A) Three
The chapter states that "Any situation involving a credit default swap will have a minimum of three parties." These are: the first party (the Reference Entity or borrower who issued the debt), the second party (the bond buyer who is also the CDS buyer), and the third party (the CDS seller who guarantees against default).

Oct/Nov 2006

51. In a CDS contract, who is the 'Reference Entity'?
(A) The institution that buys the CDS contract to obtain protection against a credit event.
(B) The institution that sells the CDS contract and provides the guarantee against default.
(C) The intermediary financial institution, such as a bank, that arranges the CDS transaction.
(D) The institution that issued the debt security and whose default risk is being covered.

Ans :

(D) The institution that issued the debt security and whose default risk is being covered.
The text identifies the first party in a CDS as "the institution that issued the debt security (borrower, or also known as the Reference Entity)." The creditworthiness of this entity is what the CDS contract is based on. If this entity defaults, the CDS seller must pay the CDS buyer, making it the central subject of the contract.

May/June 2012

52. What risk does the buyer of a CDS face, as highlighted by the 2008 Global Financial Crisis?
(A) The risk that the reference entity does not default, making the premium payments a sunk cost.
(B) The risk that the CDS seller defaults at the same time as the borrower.
(C) The risk that market interest rates move unfavorably, reducing the value of the underlying bond.
(D) The risk that the premium payments on the CDS contract increase unexpectedly during its term.

Ans :

(B) The risk that the CDS seller defaults at the same time as the borrower.
The text points out that credit risk is not eliminated but shifted to the CDS seller. It then states, "There is risk that the CDS seller will defaults at the same time the borrower defaults. This was one of the primary causes of the 2008 Global Financial Crisis," citing the failures of CDS sellers like Lehman Brothers and AIG.

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Oct/Nov 2010

53. According to the RBI draft guidelines of February 2021, what is the primary distinction between retail and non-retail users of credit derivatives?
(A) The direction of trades, with retail users only permitted to sell protection to hedge risk, while non-retail users are only allowed to buy it.
(B) The eligibility to participate, with the market being exclusively open to non-retail users like banks and mutual funds, completely barring retail access.
(C) The permitted scope of activity, with non-retail users allowed to speculate while retail users are restricted to hedging.
(D) The type of eligible contracts, with retail users allowed to trade any CDS type while non-retail users are limited to single-name CDS only.

Ans :

(C) The permitted scope of activity, with non-retail users allowed to speculate while retail users are restricted to hedging.
The guidelines state, "Non-retail users shall be allowed to undertake transactions in credit derivatives for both hedging and other purposes." In contrast, it specifies that "Retail users shall undertake transactions in exchange-traded CDS only for hedging their underlying credit risk," creating a clear distinction in the permitted scope of activity for the two user types.

what facilitates the high leverage associated with derivatives.

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A primary function of derivatives is 'Hedging Price Risk'. The text explains that by entering into contracts like forwards, parties can lock in a price for a future transaction, providing protection against unexpected price hikes or drops. The other statements are incorrect as derivatives lower transaction costs, offer higher leverage, and aid price discovery for various assets.

Oct/Nov 2005

67. Which of the following statements about the history of derivatives is correct?

(A) The Government of India has always encouraged cash settlement and options trading since 1875.

(B) The first derivative transaction involved Thales of Miletus using wheat as the underlying commodity.

(C) The Chicago Board of Trade (CBOT) was founded in 1515 in Antwerp.

(D) The Dojima Rice Exchange in Japan is considered the first truly modern futures market with a clearing house.

Ans :

(D) The Dojima Rice Exchange in Japan is considered the first truly modern futures market with a clearing house.

The text states that in feudal Japan, the Dojima Rice Exchange executed transactions through a clearing house that guaranteed payments, and for this reason, it "is considered by many to be the first truly modern futures market." The other statements are factually incorrect based on the chapter's historical account.

May/June 2020

68. What is the primary risk associated with writing (selling) a call option?

(A) The risk of unlimited potential loss if the underlying asset's price rises significantly.

(B) The risk that the premium received will be less than the associated transaction costs.

(C) The risk that the buyer will choose not to exercise the option, resulting in no further profit.

(D) The risk that the underlying asset's price will fall to zero, making the contract worthless.

Ans :

(A) The risk of unlimited potential loss if the underlying asset's price rises significantly.

The seller of a call option is obligated to sell the underlying asset at a fixed strike price. If the market price of the asset rises indefinitely, the writer's loss (the difference between the high market price and the fixed strike price) is theoretically unlimited. The gain is limited to the premium received.

Oct/Nov 2015

69. A 9×12 Forward Rate Agreement (FRA) provides protection for what type of commitment?

(A) A 9-month borrowing or lending commitment starting in 12 months.

(B) A 12-month borrowing or lending commitment starting in 9 months.

(C) A 3-month borrowing or lending commitment starting in 9 months.

(D) A 3-month borrowing or lending commitment starting in 12 months.

Ans :

(C) A 3-month borrowing or lending commitment starting in 9 months.

The convention for an A × B FRA is that it covers a period starting 'A' months from today and ending 'B' months from today. Therefore, a 9×12 FRA is for a period that starts in 9 months and ends in 12 months. The duration of this commitment is 12 - 9 = 3 months.

May/June 2013

70. According to the RBI's definition, what is a key investment characteristic of a derivative contract?

(A) It requires no initial net investment or a relatively small one compared to other contract types.

(B) It requires a large initial investment to secure the contract.

(C) The initial investment is directly proportional to the notional value of the contract.

(D) The initial investment is refunded with interest at settlement.

Ans :

(A) It requires no initial net investment or a relatively small one compared to other contract types.

The RBI's three-part definition of a derivative, as cited in the text, explicitly includes the condition that it "requires no initial net investment or little initial net investment relative to other types of contracts that have a similar response to changes in market conditions." This low initial outlay is

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outright purchase (assignment) of the debts or by providing finance, such as loans or advances, secured against the interest in those receivables, distinguishing it from regular bank lending.

May/June 2021

4. Which of the following activities is specifically excluded from the definition of "factoring business" under the Factoring Regulation Act, 2011?

(A) Financing against the security interest over any receivables.
(B) Acquisition of receivables of an assignor by accepting assignment.
(C) Making loans or advances against receivables.
(D) Credit facilities provided by a bank in its ordinary course of business against security of receivables.

Ans :

(D) Credit facilities provided by a bank in its ordinary course of business against security of receivables.
The Factoring Regulation Act, 2011, makes a clear distinction between specialized factoring business and routine banking operations. It explicitly excludes standard credit facilities, such as cash credit or overdrafts, that a bank provides in its normal course of business, even when these facilities are secured by the company's book debts or receivables, from its definition.

Oct/Nov 2010

5. Which statement accurately describes the status of 'without recourse' factoring in India?

(A) 'Without recourse' factoring is the most common form of factoring permitted and practiced in India.
(B) 'Without recourse' factoring is permitted in India only for international transactions.
(C) 'Without recourse' factoring is not permitted in India, and factoring is typically done on a 'with recourse' basis.
(D) 'Without recourse' factoring is permitted in India, but the factor can still recover from the seller.

Ans :

(C) 'Without recourse' factoring is not permitted in India, and factoring is typically done on a 'with recourse' basis.
The text explicitly states that while factoring can be 'with recourse' or 'without recourse', in the Indian context, 'without recourse' factoring is not permitted. This means that if the buyer (debtor) fails to pay the invoice, the factor retains the right to recover the advanced amount from the original seller (client), making it a 'with recourse' arrangement.

May/June 2005

6. In a typical factoring arrangement, what percentage of the invoice value does the factor initially pay to the seller upon submission of the invoice?

(A) 100%
(B) 85%
(C) 50%
(D) 70%

Ans :

(B) 85%
Under a standard factoring agreement, the factor provides immediate liquidity to the seller by advancing a significant portion of the invoice amount. This prepayment is typically around 85% of the total value of the invoice submitted. The remaining balance, known as the margin, is paid to the seller after the factor successfully collects the full amount from the buyer.

Oct/Nov 2022

7. What are the two primary types of charges that a factor recovers from the seller in a factoring arrangement?

(A) Legal charges and processing fees
(B) Prepayment charges and late payment fees
(C) Commitment fees and discount charges
(D) Finance charges and service charges

Ans :

(D) Finance charges and service charges
A factor's revenue comes from two main charges levied on the seller. Finance charges are recovered for the funds prepaid to the seller against the invoice, essentially an interest cost. Service charges are levied for the administrative and collection services provided, such as managing the sales ledger and pursuing payments, thereby compensating the factor for its operational efforts.

May/June 2018

8. The historical origins of factoring can be traced back approximately 4,000 years to which ancient civilization or code?

(A) The days of Hammurabi

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(A) The schedule

The chapter explains that the pre-printed master agreement is never altered. Instead, it "is customised through use of the schedule to the master agreement, a document containing elections, additions and amendments to the master agreement." The schedule allows the parties to tailor the standard agreement to their specific relationship and legal requirements without changing the core text.

Oct/Nov 2007

59. How does the ISDA Master Agreement simplify the process of entering into subsequent derivative transactions between two parties who have already signed it?

(A) It completely eliminates the need for any further documentation or confirmation for future trades.

(B) The terms of the master agreement apply automatically, and only the material commercial terms of the new transaction need to be confirmed.

(C) Each new transaction still requires a complete re-negotiation of all legal and credit terms.

(D) It requires formal approval from an ISDA committee for every subsequent transaction to be valid.

Ans :

(B) The terms of the master agreement apply automatically, and only the material commercial terms of the new transaction need to be confirmed.

The text states that once a master agreement is signed, "the documentation of future transactions between parties is reduced to a brief confirmation of the material terms of the transaction." The standard terms in the master agreement apply automatically, so parties can agree to new deals over the phone and confirm them in writing without renegotiating the entire legal framework.

May/June 2025

60. Which of the following statements about the ISDA Master Agreement is correct?

(A) It aids in reducing disputes by providing extensive resources defining its terms.

(B) It is exclusively used by large international banks.

(C) It contains the specific commercial terms, like price and date, for each transaction.

(D) The pre-printed master agreement is frequently altered to suit the parties.

Ans :

(A) It aids in reducing disputes by providing extensive resources defining its terms.

The text highlights that the agreement "aids in reducing disputes by providing extensive resources defining its terms and explaining the intent of the contract." While it is often seen as a tool for banks, it is used by a wide variety of counterparties. It does not contain specific commercial terms, and the pre-printed document is never altered.

Oct/Nov 2019

61. Identify the incorrect statement regarding the characteristics of a forward contract.

(A) It is an Over-the-Counter (OTC) agreement.

(B) The terms of the contract can be tailored to suit the needs of each party.

(C) Both parties are obliged to fulfill their contractual terms.

(D) Money changes hands when the contract is first negotiated in the form of a margin.

Ans :

(D) Money changes hands when the contract is first negotiated in the form of a margin.

The text clearly states for a forward contract, "No money changes hands, when a contract is first negotiated and it is settled at maturity." This is a key difference from futures contracts, which require an initial margin. The other statements correctly describe a forward contract as a customized, bilateral, OTC agreement.

May/June 2009

62. Which of the following best describes the role of a speculator in the derivatives market?

(A) To use derivative contracts to reduce or eliminate the risk associated with price movements of an underlying asset.

(B) To transact futures and options to get extra leverage in betting on future price movements.

(C) To identify and profit from small price discrepancies of the same asset between different markets.

(D) To provide a credit guarantee for transactions by acting as a counterparty through a clearing house.

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wealthy producers in ancient Rome.

3. Practice of assigning receivables confidentially becomes widespread in London.
4. Role of American factors shifts from distribution to primarily financing due to direct sales.

(A) 1, 2, 4, 3
(B) 2, 1, 4, 3
(C) 2, 4, 1, 3
(D) 4, 1, 2, 3

Ans :

(B) 2, 1, 4, 3
The history of factoring begins in ancient Rome (2). Its first widespread documented use occurred in the 18th-century American colonies (1). Later, in the second half of the 19th century, the role of American factors shifted to financing (4). Finally, the practice of confidential assignment of invoices became particularly widespread in London in the 1950s (3).

Oct/Nov 2019

13. What is the key difference between recourse factoring and non-recourse factoring regarding credit risk?

(A) In recourse factoring, the factor bears the risk of bad debts, while in non-recourse, the seller bears the risk.
(B) Both types of factoring require the seller to bear the full risk of bad debts.
(C) In recourse factoring, the seller bears the risk of bad debts, while in non-recourse, the factor bears the risk.
(D) Both types of factoring require the factor to bear the full risk of bad debts.

Ans :

(C) In recourse factoring, the seller bears the risk of bad debts, while in non-recourse, the factor bears the risk.
The defining distinction lies in the allocation of credit risk. In recourse factoring, if the buyer defaults, the factor can recover the advanced amount from the seller, leaving the ultimate risk with the seller. Conversely, in non-recourse factoring, the factor provides credit protection and absorbs the loss from bad debts, thereby assuming the credit risk.

May/June 2009

14. In a non-recourse factoring arrangement, what are the two primary services provided by the factor?

(A) Financing and marketing support
(B) Sales ledger administration and production advice
(C) Collection and logistics management
(D) Finance and credit protection

Ans :

(D) Finance and credit protection
Non-recourse factoring offers a dual benefit to the seller. The factor not only provides immediate finance by advancing funds against the invoices but also offers credit protection. This means that in the event of non-payment by the customer due to insolvency, the factor absorbs the loss, effectively insuring the seller against the risk of bad debts.

Oct/Nov 2011

15. Which of the following statements best describes domestic factoring?

(A) It involves financing receivables from domestic trade, where both the seller and buyer are located in the same country.
(B) It involves financing receivables from international trade, where the seller and buyer are located in different countries.
(C) It is a specialized form of factoring where only formal bills of exchange are eligible for financing, excluding open account invoices.
(D) It is a non-financing service where the factor only undertakes collection activities on behalf of a domestic seller.

Ans :

(A) It involves financing receivables from domestic trade, where both the seller and buyer are located in the same country.
Domestic factoring, as its name implies, is confined to transactions occurring within a single country's borders. It is a financial arrangement where a factor purchases or finances accounts receivable that are generated from sales of goods or services between a seller and a buyer who are both located in the same domestic market (inland trade).

NODIA

of the transaction, as the exporter effectively surrenders their right to future payment from the importer in exchange for immediate cash from the forfaiter, thereby giving up the claim along with all associated risks.

May/June 2007

40. What is the typical minimum transaction size for forfaiting deals?
(A) US$ 250,000
(B) US$ 10,000
(C) US$ 50,000
(D) US$ 100,000

Ans :

(A) US$ 250,000
Forfaiting is generally used for financing larger, medium-term export transactions, often involving capital goods. Due to the administrative and risk assessment costs involved in structuring such deals, they are not viable for very small amounts. Consequently, forfaiting transactions normally have a minimum size, which is typically in the range of US$ 250,000.

Oct/Nov 2025

41. According to RBI guidelines, which entities in India are permitted to handle forfaiting transactions?
(A) All Non-Banking Financial Companies (NBFCs)
(B) Only the Export-Import Bank of India (Exim Bank)
(C) Exim Bank and AD Category - I Banks
(D) All Scheduled Commercial Banks

Ans :

(C) Exim Bank and AD Category - I Banks
The Reserve Bank of India has specified which entities are authorized to conduct forfaiting business in India. This authority is granted to the Export-Import Bank of India (Exim Bank), which plays a key role, and to commercial banks that are designated as Authorised Dealer (AD) Category - I, provided they handle the transactions on a non-recourse basis only.

May/June 2012

42. Based on the typical forfaiting transaction flowchart, what is the correct chronological sequence of the following key steps?
1. Forfaiter makes payment to the exporter.
2. Commercial contract is made between exporter and importer.
3. Importer's bank co-accepts (avalises) the bill of exchange.
4. Exporter tenders the avalised bill of exchange to the forfaiter.

(A) 2, 3, 4, 1
(B) 1, 2, 3, 4
(C) 2, 4, 3, 1
(D) 3, 2, 1, 4

Ans :

(A) 2, 3, 4, 1
The process begins with the underlying trade deal, the commercial contract (2). The payment instrument is then secured, with the importer's bank providing a guarantee by avalising the bill of exchange (3). The exporter then presents this guaranteed bill to the forfaiter (4). Finally, upon receiving the secured instrument, the forfaiter makes the discounted payment to the exporter (1).

Oct/Nov 2014

43. In a forfaiting transaction, what is the significance of the importer's bank 'avalising' the bill of exchange?
(A) It serves as the bank's official confirmation that the goods have been shipped by the exporter.
(B) It is the process by which the bank forwards the original shipping documents to the importer.
(C) It represents the bank's non-binding, indicative quote for financing the transaction for the exporter.
(D) It signifies the bank's guarantee of payment, thereby enhancing the security of the bill.

Ans :

(D) It signifies the bank's guarantee of payment, thereby enhancing the security of the bill.
'Avalisation' is a crucial step in securing a forfaiting transaction. When the importer's bank avalises a bill of exchange, it adds its own guarantee of payment. This means the bank undertakes to pay the holder of the bill on the due date if the importer defaults, significantly reducing the credit risk and making the instrument acceptable to the forfaiter.

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May/June 2020

20. International factoring encompasses four key services. Which of the following correctly lists these services?

(A) Pre-payments, logistics, marketing, and collections.
(B) Credit rating, buyer evaluation, pre-shipment finance, and customs clearance.
(C) Sales ledger administration, legal support, foreign exchange hedging, and collections.
(D) Pre-payments, sales ledger administration, credit protection, and collections.

Ans :

(D) Pre-payments, sales ledger administration, credit protection, and collections.
International factoring provides a comprehensive suite of services to manage export receivables. These four core components are: pre-payments (providing finance), sales ledger administration (managing the account), credit protection (assuming risk of non-payment), and collections (pursuing payment from the overseas buyer). This bundle of services supports the exporter throughout the transaction lifecycle.

Oct/Nov 2015

21. In the two-factor system of international factoring, what is the primary responsibility of the import factor?

(A) To provide direct financing to the exporter and handle the administration of their sales ledger from the importer's country.
(B) To act as a logistics agent, taking responsibility for the physical delivery of goods and managing customs documentation.
(C) To evaluate the buyer's credit, manage collections, and provide credit protection to the export factor.
(D) To establish the overall factoring facility limit for the exporter, a task normally done by the export factor.

Ans :

(C) To evaluate the buyer's credit, manage collections, and provide credit protection to the export factor.
In a two-factor system, the import factor operates in the importer's country and acts as the local expert. Their main role is to assess the creditworthiness of the buyer (importer), manage the collection of payments on the due date, and provide credit protection to the export factor, thereby mitigating the risk associated with the foreign buyer.

May/June 2013

22. Consider the steps in a two-factor international factoring arrangement. Which of the following represents the correct sequence of events after the exporter delivers the goods to the importer?

(A) Importer pays import factor -> Exporter produces documents to export factor -> Export factor disburses funds.
(B) Exporter produces documents to export factor -> Export factor disburses funds -> Importer pays import factor on due date.
(C) Export factor disburses funds -> Exporter produces documents to export factor -> Importer pays import factor on due date.
(D) Importer pays import factor -> Export factor disburses funds -> Exporter produces documents to export factor.

Ans :

(B) Exporter produces documents to export factor -> Export factor disburses funds -> Importer pays import factor on due date.
Following the delivery of goods, the process continues with the exporter submitting the relevant documents (like invoices) to their export factor. The export factor then disburses the pre-agreed prepayment amount to the exporter. Subsequently, on the invoice due date, the importer makes the payment to the import factor in their country, who then remits it.

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Oct/Nov 2021

23. What is the defining characteristic of the 'Single factor system' in international factoring?

(A) There is only one factor involved, which is the import factor.
(B) The exporter deals directly with the import factor for all aspects of the transaction.
(C) It is a system where the export factor handles everything without an import factor.
(D) The import factor becomes involved only if the buyer defaults on the payment.

Ans :

(D) The import factor becomes involved only if the buyer defaults on the payment.
The Single Factor System, also known as the one-factor system, primarily relies on the export factor to manage the transaction. The import factor's

May/June 2010

16. In a typical domestic factoring transaction in India, what happens if the purchaser fails to pay the due amount on the specified due dates?

(A) The factor writes off the amount as a bad debt.

(B) The supplier has to make good the payment to the factor.

(C) The factor initiates legal proceedings against the purchaser's bank.

(D) The balance 20% payment is released to the supplier immediately.

Ans :

(B) The supplier has to make good the payment to the factor.

Domestic factoring in India is typically conducted on a 'with recourse' basis. This means the credit risk remains with the supplier (seller). If the purchaser defaults on the payment on the due date, the responsibility to repay the amount advanced by the factor falls back on the supplier, who must then make good the payment.

Oct/Nov 2024

17. What is the maximum credit period, including the grace period, normally permitted under a domestic factoring arrangement?

(A) 90 days, inclusive of a 30-day grace period.

(B) 150 days, inclusive of a 60-day grace period.

(C) 120 days, inclusive of a 45-day grace period.

(D) 180 days, inclusive of a 90-day grace period.

Ans :

(B) 150 days, inclusive of a 60-day grace period.

Domestic factoring arrangements have a defined timeline for the credit extended. The maximum permissible credit period for a receivable to be eligible for factoring is normally 150 days. This total period includes a maximum grace period of 60 days, providing a structured timeframe for the entire transaction from sale to final collection by the factor.

May/June 2017

18. Which of the following is an essential eligibility criterion for a supplier to avail domestic factoring services?

(A) The supplier must demonstrate a stable business track record, consistent profitability, and a positive net worth.

(B) The supplier must be a newly established start-up company, with a focus on high growth potential over current profitability.

(C) The supplier must show a record of consistent profitability, even if they currently possess a negative net worth.

(D) The supplier must primarily conduct cash sales and have a limited or non-existent history of extending credit to buyers.

Ans :

(A) The supplier must demonstrate a stable business track record, consistent profitability, and a positive net worth.

To mitigate risk, factors impose specific eligibility criteria on suppliers. A supplier seeking factoring services must demonstrate financial stability and a reliable business history. This typically includes having been in business for a certain minimum number of years, showing a record of consistent profitability, and maintaining a positive net worth, indicating a healthy financial position.

Oct/Nov 2005

19. How is the overall factoring limit for a supplier typically determined?

(A) It is determined solely by the supplier's audited net worth, without regard to sales volume or receivable quality.

(B) It is a standardized fixed amount mandated by the Reserve Bank of India for all suppliers within a specific industry.

(C) It is based on projected credit sales receivables, adjusted for any existing bank financing limits on those receivables.

(D) It is calculated as the total sum of all invoices submitted by the supplier, with no pre-set upper limit on the facility.

Ans :

(C) It is based on projected credit sales receivables, adjusted for any existing bank financing limits on those receivables.

The factoring limit is not arbitrary but is calculated based on the supplier's business volume and existing credit facilities. Factors assess the supplier's projected credit sales to estimate future receivables. From this, they deduct any existing limits for bill discounting or book debt financing that the supplier already has with its bank to avoid over-financing.

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The seller (exporter) bypasses having a factor in their own country and instead establishes a direct relationship with the factor located in the importer's country. This import factor then manages all transaction aspects, including funding, collection, and administration, directly with the seller.

May/June 2008

28. Who are the primary parties interacting in a 'Direct Import Factoring System' after the goods are delivered?

(A) Supplier, Buyer, Export Factor, and Import Factor
(B) Supplier, Buyer, and Import Factor
(C) Supplier, Buyer, and Export Factor
(D) Supplier and Export Factor only

Ans :

(B) Supplier, Buyer, and Import Factor
The 'Direct Import Factoring System' is characterized by a streamlined interaction. The supplier (exporter) deals directly with the import factor, who is in the buyer's country. Therefore, the key transaction flow for assignment of receivables, funding, and payment involves the supplier, the buyer, and this single import factor, with no export factor being part of the process.

Oct/Nov 2013

29. Given that bills discounting is only a mode of financing while factoring is a complete receivables management service, which conclusion is correct?

(A) Both services are identical in terms of risk allocation.
(B) The responsibility for debt collection is the same in both services.
(C) Factoring offers a broader range of services than bills discounting.
(D) Bills discounting can be done without recourse, just like factoring.

Ans :

(C) Factoring offers a broader range of services than bills discounting.
The key distinction is that bills discounting is "only a mode of financing." In contrast, factoring is described as "complete receivables management, including MIS, collection, and even credit insurance." This demonstrates that factoring is a more comprehensive service bundle, going beyond simple financing to include administrative and risk mitigation functions, making it a broader offering.

May/June 2015

30. Identify the incorrect statement when comparing Bills Discounting with Factoring.

(A) Bills discounting always involves recourse to the exporter, whereas factoring can be without recourse.
(B) In bills discounting, collection is the job of the exporter, while in factoring, it is the job of the factor.
(C) Bills discounting is transaction-based financing, whereas factoring is based on the accounts-receivable ledger.
(D) Factoring requires a strong balance sheet and collaterals, while bills discounting can be done with a weak balance sheet.

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Ans :

(D) Factoring requires a strong balance sheet and collaterals, while bills discounting can be done with a weak balance sheet.
This statement reverses the actual conditions. According to the comparison, bills discounting is the one that typically requires a strong balance sheet and collaterals from the client. Factoring, on the other hand, can be availed even with a weaker balance sheet, provided the underlying receivables are of good quality, as the focus is on the debtor's creditworthiness.

Oct/Nov 2012

31. Match the characteristics in List-I with the correct financial service in List-II.

	List-I (Characteristic)		**List-II (Financial Service)**
P.	Involves assignment of debt	1.	Bills Discounting
Q.	Always with recourse	2.	Factoring
R.	Collection is the job of the factor		
S.	It is only a mode of financing		

(A) P-2, Q-1, R-2, S-1
(B) P-1, Q-2, R-1, S-2
(C) P-2, Q-2, R-1, S-1
(D) P-1, Q-1, R-2, S-2

role is conditional and passive. It is only activated and comes into focus if the buyer fails to make the payment, at which point the export factor recovers the amount from the import factor.

May/June 2024

24. An Indian exporter uses a 'Single factor system' for a shipment to a buyer in Germany. The export factor in India provides 80% finance. The German buyer fails to pay the export factor on the due date. What is the next step in this arrangement?

(A) The export factor will recover the amount from the import factor in Germany.
(B) The export factor will recover the 80% advance from the Indian exporter.
(C) The export factor will initiate legal action directly against the German buyer.
(D) The import factor will pay the Indian exporter the remaining 20% balance.

Ans :

(A) The export factor will recover the amount from the import factor in Germany.
In a single factor system, the import factor's key role is to provide credit protection. When the buyer defaults, the export factor does not go back to the exporter (as it's non-recourse) but instead invokes the agreement with the import factor. The export factor recovers the due amount from the import factor, who then takes on the responsibility of collection from the buyer.

Oct/Nov 2008

25. Which statement best describes the 'Direct Export Factoring System'?

(A) A system where the exporter's regular commercial bank acts as the factor without a specialized agreement.
(B) A system that requires the coordination of two factors, one in the exporter's country and one in the importer's.
(C) A system where a single entity, the Export Factor, manages financing, administration, and collection.
(D) A system where the exporter bypasses a local factor and deals directly with a factor in the importer's country.

Ans :

(C) A system where a single entity, the Export Factor, manages financing, administration, and collection.
The Direct Export Factoring system simplifies the factoring structure by eliminating the import factor. In this model, only one financial institution, the Export Factor, is involved. This single factor, located in the exporter's country, is responsible for handling all aspects of the transaction, including financing, administration, credit protection, and collection from the overseas buyer.

May/June 2006

26. In a 'Direct Export Factoring' arrangement, who is responsible for collecting payment from the buyer?

(A) The export factor
(B) The supplier
(C) The buyer's bank
(D) An import factor

Ans :

(A) The export factor
The core principle of 'Direct Export Factoring' is the involvement of a single entity. The Export Factor, based in the supplier's country, assumes full responsibility for the entire transaction. This includes not only providing finance and managing the sales ledger but also directly handling the collection of the due amount from the overseas buyer without involving a corresponding import factor.

Oct/Nov 2017

27. How does the 'Direct Import Factoring System' operate?

(A) The seller works with a local export factor, who then coordinates with a corresponding import factor abroad.
(B) The buyer (importer) initiates and sets up the factoring arrangement with a local factor to finance their payables.
(C) A single entity, the export factor in the seller's country, manages the entire transaction without a foreign correspondent.
(D) The seller (exporter) establishes a direct relationship with the factor in the importer's country.

Ans :

(D) The seller (exporter) establishes a direct relationship with the factor in the importer's country.
In the Direct Import Factoring model, the traditional roles are consolidated differently.

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100% of their value.

(D) A direct loan provided to an importer, enabling them to make upfront payment for imported capital goods.

Ans :

(C) Financing exports on a without recourse basis by discounting receivables for up to 100% of their value.

Forfaiting is a specialized export finance technique. It involves the forfaiter purchasing the exporter's medium to long-term receivables (evidenced by instruments like bills of exchange) at a discount. This provides the exporter with immediate cash, up to 100% of the invoice value, and crucially, it is done on a 'without recourse' basis, eliminating post-sale risk for the exporter.

May/June 2016

36. A defining characteristic of forfaiting is that it is conducted on a 'no recourse' basis. What does this imply for the exporter?

(A) The exporter must repay the forfaiter if the importer defaults.

(B) The exporter is not protected against currency rate fluctuations.

(C) The exporter can only receive a partial payment, with the balance held as security.

(D) The exporter has no liability to the forfaiter if the importer fails to pay on the due date.

Ans :

(D) The exporter has no liability to the forfaiter if the importer fails to pay on the due date.

The 'without recourse' or 'no recourse' nature of forfaiting is its most critical feature for the exporter. It signifies a complete transfer of risk. Once the forfaiter discounts the receivables, the exporter is freed from any liability. If the importer defaults for any reason (commercial or political), the forfaiter bears the entire loss and cannot claim repayment from the exporter.

Oct/Nov 2009

37. Which of the following is a type of instrument commonly discounted in a forfaiting transaction?

(A) Unsigned invoices

(B) Open account receivables

(C) Drafts drawn under letters of credit or promissory notes

(D) Verbal credit agreements

Ans :

(C) Drafts drawn under letters of credit or promissory notes

Forfaiting transactions are based on debt instruments that represent a clear and unconditional obligation to pay. These are freely negotiable instruments such as drafts drawn under letters of credit, bills of exchange, and promissory notes. These instruments provide the forfaiter with a legally enforceable claim against the importer or the guaranteeing bank, which is essential for this type of financing.

May/June 2023

38. Assertion (A): Forfaiting fully protects an exporter against unfavorable movements in interest and currency rates during the credit period.

Reason (R): In a forfaiting transaction, the entire risk associated with the deferred payment is passed on to the forfaiter.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

Forfaiting provides comprehensive risk mitigation. The assertion (A) is true because the discount rate is fixed upfront, eliminating interest rate risk, and the transaction is in a specific currency, paid immediately to the exporter. The reason (R) is also true, as the 'without recourse' nature means all risks—credit, political, currency, and interest rate—are transferred to the forfaiter, which correctly explains why the exporter is protected.

Oct/Nov 2018

39. The term 'Forfait' is derived from a French word. What is the meaning of this word?

(A) To finance

(B) To discount a bill

(C) To collect a debt

(D) To surrender rights

Ans :

(D) To surrender rights

The etymology of the term 'forfaiting' comes from the French word 'forfait'. This word translates to 'surrendering of rights'. This is highly descriptive

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amount for the period from commitment until discounting.

May/June 2005

48. Statement I: In forfaiting, the discount fee is normally linked to an international benchmark rate like LIBOR.
Statement II: The commitment fee in forfaiting typically ranges between 0.5% and 1.5% per annum of the unutilised amount.
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Ans :

(C) Both Statement I and Statement II are correct.
Both statements accurately describe the fees involved in forfaiting. The discount fee, which is the interest component, is typically benchmarked against a major international interest rate such as LIBOR (Statement I). The commitment fee, charged for the forfaiter's promise to transact, has a standard range of 0.5% to 1.5% per annum on the committed but undiscounted amount (Statement II).

Oct/Nov 2022

49. What is a key advantage of forfaiting regarding the quantum of financing provided to the exporter?
(A) It provides partial financing, typically up to 80%, similar to a factoring advance.
(B) It provides 100% financing and does not impact the exporter's existing bank credit lines.
(C) The amount of financing available is directly limited by the strength of the exporter's own balance sheet.
(D) It is a form of post-payment financing, where funds are provided only after the importer has paid in full.

Ans :

(B) It provides 100% financing and does not impact the exporter's existing bank credit lines.
A significant benefit of forfaiting is its ability to provide 100% financing against the value of the export receivables. Since the transaction is without recourse and off-balance-sheet for the exporter, it does not use up their existing credit limits with banks. This frees up the exporter's borrowing capacity for other operational needs, greatly improving liquidity.

May/June 2018

50. One of the major advantages of forfaiting is that it enables the exporter to avoid various risks. Which of the following risk combinations are transferred to the forfaiter?
(A) Interest-rate risk, currency risk, credit risk, and political risk
(B) Production risk and quality risk
(C) Shipping risk and logistics risk
(D) Marketing risk and sales risk

Ans :

(A) Interest-rate risk, currency risk, credit risk, and political risk
Forfaiting is a powerful risk mitigation tool. By selling the receivable without recourse, the exporter transfers a comprehensive set of post-shipment risks to the forfaiter. This includes the risk of the importer defaulting (credit risk), adverse government actions (political risk), unfavorable currency movements (currency risk), and changes in interest rates during the credit period (interest-rate risk).

Oct/Nov 2016

51. Which of the following is an advantage of forfaiting for an exporter?
(A) It increases the administrative burden of managing receivables.
(B) It restricts the exporter's ability to offer credit to buyers.
(C) It allows the exporter to transfer the financing cost into the sale price.
(D) It exposes the exporter to political risks in the buyer's country.

Ans :

(C) It allows the exporter to transfer the financing cost into the sale price.
Forfaiting provides certainty of costs. Since the discount and commitment fees are known in advance, the exporter can accurately calculate the total financing cost. This allows the exporter to incorporate these costs into the sale price of the goods quoted to the importer, effectively transferring the financial burden and protecting their profit margins on the transaction.

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May/June 2019

44. When an Indian exporter approaches Exim Bank for a forfaiting transaction, what is the immediate next step taken by Exim Bank?
(A) It issues a suitable certificate to the exporter.
(B) It contacts an international forfaiter to request an indicative quote.
(C) It finalises the contract and pricing with the exporter.
(D) It discounts the bills and remits the proceeds to the exporter.

Ans :

(B) It contacts an international forfaiter to request an indicative quote.
In India, Exim Bank often acts as an intermediary or facilitator for forfaiting. When an exporter approaches it, Exim Bank's first role is to reach out to its network of international forfaiters. It provides them with details of the proposed transaction and requests an indicative quote for the discount and other charges, which is then relayed to the exporter.

Oct/Nov 2006

45. An Indian exporter finalises a contract with an importer in a developing nation. The exporter approaches Exim Bank for forfaiting. After receiving a firm quote from an international forfaiter via Exim Bank and getting the importer's concurrence, the goods are exported. What is the next step for the exporter to receive funds?
(A) Wait for the importer to make the payment on the due date.
(B) Request Exim Bank to issue a certificate for customs.
(C) Submit the shipping documents to the forfaiter through Exim Bank.
(D) Negotiate the discount fees directly with the international forfaiter.

Ans :

(C) Submit the shipping documents to the forfaiter through Exim Bank.
Once the goods are shipped, the transaction moves to the financing stage. The exporter must gather the required shipping documents and the avalised bill of exchange or promissory note. These documents are then submitted, via the facilitating agency (Exim Bank), to the forfaiter who has committed to the deal. This submission triggers the discounting and payment process.

May/June 2021

46. What is 'Discount fees' in the context of forfaiting?
(A) A fee charged for the forfaiter's commitment to execute a transaction at a fixed rate at a future date.
(B) A flat service charge levied by the forfaiter for the administrative work involved in the transaction.
(C) A penalty fee applied if the exporter fails to submit the required documents by the agreed-upon deadline.
(D) The interest cost for the credit period, which is deducted from the face value of the receivable.

Ans :

(D) The interest cost for the credit period, which is deducted from the face value of the receivable.
The discount fee represents the primary cost of forfaiting for the exporter. It is effectively the interest cost payable for the entire credit period of the transaction. This fee is calculated by the forfaiter and deducted upfront from the face value of the bill of exchange or promissory note before the net proceeds are remitted to the exporter.

Oct/Nov 2010

47. Forfaiting involves 'Commitment fees'. When and why are these fees charged?
(A) A fee charged for the period between commitment and discounting to compensate for holding a firm rate.
(B) A fee levied upon successful completion of the transaction, calculated as a percentage of the deal value.
(C) A penalty fee charged to the exporter in the specific event that the importer defaults on payment.
(D) A fee charged by an intermediary like Exim Bank for its facilitation services, typically 2% to 3% of the transaction.

Ans :

(A) A fee charged for the period between commitment and discounting to compensate for holding a firm rate.
A commitment fee is payable to the forfaiting agency for its undertaking to execute a transaction at a pre-agreed firm discount rate within a specified time. It compensates the forfaiter for the risk of holding funds and the rate fixed for the exporter. It is charged on the unutilised

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Ans :

(A) P-2, Q-1, R-2, S-1
Factoring involves a legal assignment of debt to the factor (P-2). Bills discounting is always on a 'with recourse' basis (Q-1). In factoring, the responsibility of collection lies with the factor (R-2). Bills discounting is purely a financing mode, unlike the comprehensive service of factoring (S-1). This matching correctly aligns the distinct features of each service.

May/June 2011

32. How is the 'Finance Charge' in a factoring arrangement typically computed?
(A) As a single, fixed percentage applied to the exporter's total annual sales volume, regardless of usage.
(B) On the outstanding pre-payment amount, calculated and charged at periodic intervals.
(C) As a one-time upfront fee based on the total projected value of invoices to be factored during the year.
(D) On the full face value of each invoice, levied only after the final payment has been collected from the buyer.

Ans :

(B) On the outstanding pre-payment amount, calculated and charged at periodic intervals.
The finance charge in factoring is essentially the interest cost for the funds advanced to the client. It is not a flat fee but is calculated periodically, usually at monthly intervals. The basis for this calculation is the amount of the prepayment that remains outstanding in the exporter's (client's) account during that period, reflecting the cost of funds used.

Oct/Nov 2020

33. What is the typical range for the 'Service Fee' in factoring, and what costs is it intended to cover?
(A) A fee of 1% to 2% on the pre-payment amount, intended to cover the factor's finance costs.
(B) A fee of 0.1% to 0.3% on invoice value, covering administrative and collection services.
(C) A fee of 0.5% to 1% on total invoice value, specifically allocated to cover potential legal expenses.
(D) A standard flat fee charged per invoice, designed to serve as an insurance premium against bad debts.

Ans :

(B) A fee of 0.1% to 0.3% on invoice value, covering administrative and collection services.
The service fee is a nominal charge levied to compensate the factor for its non-financing activities. It covers operational costs associated with services like collection efforts, sales ledger management, and providing periodical MIS reports. This fee is typically calculated as a small percentage, ranging from 0.1% to 0.3%, of the total value of invoices processed.

May/June 2022

34. How does factoring contribute to improving a company's operating cycle and ROI?
(A) By accelerating receivables turnover, which improves cash flow for increased production and profits.
(B) By providing negotiation services that reduce the cost of raw materials through coordinated bulk purchases.
(C) By offering long-term, asset-backed loans specifically for the purpose of capital equipment expansion.
(D) By providing detailed Management Information System (MIS) reports that help reduce internal administrative costs.

Ans :

(A) By accelerating receivables turnover, which improves cash flow for increased production and profits.
Factoring converts credit sales into immediate cash, which significantly shortens the time receivables are outstanding. This acceleration of the receivables turnover improves the company's operating cycle. The enhanced cash flow can be reinvested into the business for more production and sales, ultimately leading to higher profits and an improved Return on Investment (ROI) for the company.

Oct/Nov 2023

35. Forfaiting is best defined as:
(A) A method of financing short-term domestic trade receivables, conducted strictly on a with-recourse basis.
(B) A fee-based service focused solely on collecting domestic debts, without providing any form of financing.
(C) Financing exports on a without recourse basis by discounting receivables for up to

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May/June 2014

52. Based on the characteristics of factoring and forfaiting, which service would be more appropriate for a company that exports capital machinery in a single, high-value deal?

(A) Factoring, as its structure is specifically designed for handling ongoing, short-term open account sales.

(B) Factoring, as it operates based on a continuous arrangement covering a company's entire sales ledger.

(C) Forfaiting, as it is primarily a tool for financing short-term receivables with a quick turnover.

(D) Forfaiting, as it is structured for single, high-value, medium to long-term deals.

Ans :

(D) Forfaiting, as it is structured for single, high-value, medium to long-term deals.

Forfaiting is suitable for "one-off transactions" and is "medium to long term in nature." An export of capital machinery is typically a high-value, single transaction with a longer credit period. This aligns perfectly with the characteristics of forfaiting, whereas factoring is better suited for continuous, short-term sales with a shorter payment cycle.

Oct/Nov 2007

53. Identify the correctly matched pair based on the differences between factoring and forfaiting.

(A) Factoring : Generally 'without recourse'

(B) Forfaiting : Short term in nature

(C) Factoring : Commonly for domestic and international transactions

(D) Forfaiting : Suitable for on-going open account sales

Ans :

(C) Factoring : Commonly for domestic and international transactions

Factoring is commonly used for both domestic and international trade receivables. The other options are incorrect: factoring can be 'with recourse', forfaiting is medium to long term, and forfaiting is suitable for one-off transactions, not on-going open account sales. Therefore, the statement about factoring's applicability to both markets is correct.

May/June 2025

54. What is the primary objective of the Trade Receivables Discounting System (TReDS)?

(A) To facilitate the financing of import payables for large corporations dealing with overseas suppliers.

(B) To facilitate financing for trade receivables owed to MSMEs by corporate and other buyers.

(C) To provide a secondary market platform for the electronic trading of government-issued securities.

(D) To offer tools and a platform for exporters and importers to hedge against foreign exchange rate fluctuations.

Ans :

(B) To facilitate financing for trade receivables owed to MSMEs by corporate and other buyers.

The Trade Receivables Discounting System (TReDS) was specifically introduced to address the financing constraints faced by Micro, Small, and Medium Enterprises (MSMEs). Its main purpose is to create an institutional mechanism where MSMEs can discount their invoices and bills of exchange raised against corporate buyers, government departments, and PSUs, thereby improving their liquidity.

Oct/Nov 2019

55. In which year did the Reserve Bank of India (RBI) introduce the concept of TReDS?

(A) 2011

(B) 2017

(C) 2009

(D) 2014

Ans :

(D) 2014

To address the persistent issue of delayed payments and financing difficulties for MSMEs, the Reserve Bank of India took a significant step by conceptualizing a new mechanism. The RBI introduced the concept of the Trade Receivables Discounting System (TReDS) in the year 2014, aiming to create a secure, transparent digital platform for financing MSME receivables.

May/June 2009

56. What is the nature of transactions processed under TReDS with respect to the MSME sellers?

(A) The transactions are "without recourse" to the MSMEs.

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(B) The transactions are "with recourse" to the MSMEs.
(C) The recourse can be either with or without, based on the financier's choice.
(D) The recourse is to the MSME seller only if the buyer is a private corporate.

Ans :

(A) The transactions are "without recourse" to the MSMEs.
A key feature and a major benefit of the TReDS platform for MSMEs is the risk transfer. All financing transactions processed through TReDS are on a "without recourse" basis for the MSME sellers. This means once an invoice is discounted, the MSME is protected from the risk of non-payment by the buyer, as this risk is borne by the financier.

Oct/Nov 2011

57. TReDS is capable of handling both receivables factoring and reverse factoring. What does reverse factoring on the TReDS platform imply?
(A) The MSME seller starts the process by uploading an invoice for a specific buyer to discount.
(B) The financier begins the bidding process proactively, without a specific invoice being uploaded by a seller.
(C) The corporate buyer initiates the transaction, enabling its MSME suppliers to access financing.
(D) The MSME seller uses the platform to discount receivables that are due from an overseas-based buyer.

Ans :

(C) The corporate buyer initiates the transaction, enabling its MSME suppliers to access financing.
In a standard factoring transaction, the seller initiates the process. Reverse factoring, however, is a buyer-led process. On the TReDS platform, this means the corporate buyer can initiate the financing process for its MSME suppliers by accepting their invoices early. This helps the suppliers get access to finance at potentially better rates due to the buyer's creditworthiness.

May/June 2010

58. Who are considered the direct participants in the TReDS ecosystem?
(A) MSME sellers, various types of buyers (corporate, PSU), and financiers (banks, NBFCs).
(B) Only the MSME sellers seeking funds and the financiers providing the capital.
(C) Only the large corporate buyers and the specific banks that handle their accounts.
(D) The third-party technology providers, system integrators, and the regulating body (RBI).

Ans :

(A) MSME sellers, various types of buyers (corporate, PSU), and financiers (banks, NBFCs).
The TReDS platform functions as a marketplace bringing together three key stakeholders. These direct participants are the MSME sellers who need to finance their receivables, the corporate and other buyers (including government bodies) who need to pay for goods/services, and the financiers, such as banks and NBFC factors, who bid to discount the receivables.

Oct/Nov 2024

59. Based on the TReDS process flow, what immediately follows the buyer's approval of an invoice on the TReDS platform?
(A) The supplier receives payment from the buyer.
(B) Financiers begin bidding on the invoice.
(C) The supplier accepts the most favourable bid.
(D) The invoice is converted into one or more 'Factoring Units'.

Ans :

(D) The invoice is converted into one or more 'Factoring Units'.
The process flow indicates a specific sequence. After the buyer verifies and approves the invoice, the system does not immediately open it for bidding. The next immediate step is the process where the TReDS platform converts the approved invoice into standardized instruments known as 'Factoring Units', which are then made available for bidding.

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May/June 2017

60. An MSME supplier uploads an invoice on TReDS. The corporate buyer approves it. Several financiers place bids. The MSME accepts the most competitive bid. According to the TReDS process flow, what is the immediate next action performed by the TReDS platform?
(A) Generate instructions to debit the buyer's account.
(B) Generate settlement instructions for debiting

the financier and crediting the supplier.
(C) Convert the invoice into Factoring Units.
(D) Wait for the due date to complete the transaction.

Ans :

(B) Generate settlement instructions for debiting the financier and crediting the supplier.
In the TReDS workflow, once the MSME supplier accepts the best bid from a financier, the platform's role is to facilitate the payment. The immediate next step is for the TReDS platform to automatically generate settlement instructions. These instructions will debit the account of the winning financier and credit the account of the MSME supplier, ensuring prompt payment.

Oct/Nov 2005

61. In the TReDS process, what is created when an MSME supplier enters the details of an invoice or bill of exchange on the platform?
(A) A Credit Note
(B) A Forfaiting Unit
(C) A Factoring Unit (FU)
(D) A Settlement Instruction

Ans :

(C) A Factoring Unit (FU)
When a supplier uploads an invoice or a bill of exchange onto the TReDS platform, the system standardizes this receivable into a financial instrument. This instrument, which is then made available for acceptance by the buyer and subsequent bidding by financiers, is referred to as a 'Factoring Unit' or 'FU' within the TReDS ecosystem.

May/June 2020

62. What is the settlement timeline for crediting the MSME supplier's account after a bid is accepted on the TReDS platform?
(A) T+5 basis
(B) T+3 basis
(C) On the invoice due date
(D) T+1 basis

Ans :

(D) T+1 basis
One of the primary benefits of TReDS is the speed of financing. Once an MSME supplier accepts the most competitive bid from a financier for their Factoring Unit, the platform ensures rapid settlement. The TReDS platform generates the entries to credit the MSME supplier's account on a T+1 basis, meaning one working day after the transaction date.

Oct/Nov 2015

63. Based on the specified minimum capabilities of the TReDS process flow, which function is NOT mentioned?
(A) Providing foreign exchange hedging services.
(B) Re-discounting of factoring units.
(C) Sending notifications to relevant parties.
(D) Generation of settlement obligations.

Ans :

(A) Providing foreign exchange hedging services.
The functional requirements for a TReDS platform include invoice uploading, acceptance, discounting, re-discounting, notifications, reporting, and settlement generation. However, providing foreign exchange hedging services is not mentioned, as TReDS is primarily focused on financing domestic trade receivables denominated in the local currency, not managing currency risk.

May/June 2013

64. What is the minimum paid-up equity capital required for an entity to be eligible to set up and operate a TReDS platform?
(A) Rs. 5 crores
(B) Rs. 25 crores
(C) Rs. 10 crores
(D) Rs. 100 crores

Ans :

(B) Rs. 25 crores
To ensure that entities operating TReDS platforms are financially sound and stable, the RBI has stipulated specific financial criteria. One of the key requirements is that the entity must have a minimum paid-up equity capital of Rs. 25 crores. This is because the platform itself is not permitted to assume any credit risk from the transactions it facilitates.

Oct/Nov 2021

65. What is the maximum shareholding permitted for entities, other than the promoters, in the equity capital of a TReDS platform?
(A) 5%
(B) 10%
(C) 20%
(D) 49%

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CHAPTER 38
Venture Capital

Oct/Nov 2015

1. What is the primary nature of investments made by venture capital funds?
(A) Low-risk, short-term debt instruments in established, publicly traded corporations
(B) High-risk private equity in start-up or early-stage companies with high growth potential
(C) Government-issued securities and municipal bonds offering guaranteed, fixed-income returns
(D) Speculative investments in physical real estate assets and volatile commodity markets

Ans :

(B) High-risk private equity in start-up or early-stage companies with high growth potential
Venture capital is fundamentally a form of private institutional investment targeting start-up or early-stage small to medium businesses with significant growth potential. These ventures inherently involve substantial risk due to their unproven nature, but they also offer the prospect of sizable gains, characterizing them as high-risk/high-return opportunities for venture capitalists.

May/June 2024

2. Who are the individuals or entities that invest money in high-risk ventures with the expectation of sizable gain, becoming financial partners in the process?
(A) Venture Capitalists (VCs)
(B) Commercial Bankers
(C) Angel Investors
(D) Retail Investors

Ans :

(A) Venture Capitalists (VCs)
The people who provide venture capital funding are known as Venture Capitalists or VCs. They become financial partners in the start-up or early-stage company, investing in the expectation of significant returns. Their role is distinct from traditional lenders as they take an equity stake and share the risk of the venture's success or failure.

Oct/Nov 2010

3. For which type of companies is venture capital considered the most suitable funding option?
(A) Large, publicly listed multinational corporations with stable cash flows
(B) Government-owned public sector undertakings focused on public utilities
(C) Start-ups and early-stage firms with an unproven track record of performance
(D) Established family-owned businesses seeking conservative succession funding

Ans :

(C) Start-ups and early-stage firms with an unproven track record of performance
Venture capital is specifically designed to support companies that are in their nascent stages, such as start-ups, which have little to no history of performance. These companies often possess innovative ideas but lack the collateral or proven cash flow required to secure funding from traditional sources like banks, making venture capital their most viable option.

May/June 2008

4. What is a critical prerequisite for setting up an industrial enterprise that becomes particularly acute for a new, unknown technocrat with innovative ideas but limited personal capital?
(A) Immediate profitability from the first quarter of operations
(B) A large, pre-existing marketing team with a national presence
(C) A secured, pre-existing customer base with long-term contracts
(D) Timely and adequate availability of finance for operations and growth

Ans :

(D) Timely and adequate availability of finance for operations and growth
The timely and adequate availability of finance is an essential prerequisite for any industrial enterprise. This need is heightened for new entrepreneurs or technocrats who have

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to get its payables financed for the benefit of its suppliers. When the buyer-corporate initiates the transaction on a platform like TReDS, it is an example of reverse factoring.

May/June 2008

70. Assertion (A): Factoring is generally short-term finance and often with recourse.
Reason (R): Forfaiting is for medium-term receivables and is generally without recourse.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
Both statements are factually correct summaries of the two financial tools. Assertion (A) correctly describes factoring's typical tenure and recourse nature. Reason (R) correctly describes forfaiting's characteristics. However, the nature of forfaiting (R) does not explain why factoring has its specific characteristics (A). They are two independent, though related, correct statements about different products.

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(B) The venture capitalist takes over the complete day-to-day management of the enterprise, replacing the founders.
(C) The venture capitalist acts as a completely passive investor with no involvement in the company's affairs post-investment.
(D) The venture capitalist's role is limited to providing the initial funds and then immediately seeking an exit.

Ans :

(A) The venture capitalist aids and guides management without participating in day-to-day operations.
Although a venture capitalist participates in the equity of an enterprise, they do not intend to act as the owner or run daily operations. Instead, their role is to aid and guide the management team by providing valuable skill, experience, and expertise. They nurture the new enterprise until it becomes profitable, often through board representation.

Oct/Nov 2024

19. What is the primary intention of a venture capitalist regarding their investment in an investee company?
(A) To retain the investment indefinitely as a passive shareholder to earn long-term dividends
(B) To convert the equity stake into a long-term loan that provides fixed interest payments
(C) To divest the shares as soon as the company becomes profitable to realize high returns
(D) To acquire a majority controlling stake in order to merge the company with another entity

Ans :

(C) To divest the shares as soon as the company becomes profitable to realize high returns
A venture capitalist does not intend to hold their investment in an investee company forever. Their strategy is to exit the venture by divesting their shares once the company achieves profitability and the expected high returns are realized. The capital is then freed up to be reinvested into another promising venture, repeating the cycle.

May/June 2017

20. How does a venture capitalist primarily intend to earn their returns from an investment?
(A) Through regular interest payments on loans provided to the company.
(B) Through management fees charged for their advisory services.
(C) Through royalty payments on the company's annual sales.
(D) Through capital gains arising from the sale of their equity holdings.

Ans :

(D) Through capital gains arising from the sale of their equity holdings.
The principal financial goal for a venture capitalist is to generate returns largely through capital gains. This is achieved by selling their equity stake in the investee company at a much higher valuation than their initial investment. This focus on capital appreciation distinguishes them from traditional lenders who earn through regular interest payments on debt.

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Oct/Nov 2009

21. Which of the following is NOT a typical feature of venture capital investments?
(A) They are high-risk investments made with the intention of making high profits.
(B) The investments are made in start-ups with potential to grow.
(C) Investments are generally made in low-risk, established blue-chip companies.
(D) The provider of venture capital can participate in the management of the company.

Ans :

(C) Investments are generally made in low-risk, established blue-chip companies.
Venture capital investments are characterized by high risk, a focus on start-ups with growth potential, and the VC's participation in management. They are specifically not targeted at low-risk, established blue-chip companies, as such firms can typically access traditional financing and do not offer the exponential growth potential that venture capitalists seek for high returns.

May/June 2013

22. Venture capital financing is broadly classified into which two main categories of stages?
(A) Domestic and International financing
(B) Early-stage and Later-stage financing
(C) Pre-seed and Post-seed financing
(D) Equity and Debt financing

innovative concepts but lack personal capital. Traditional financing is often inaccessible to them, creating a critical gap that risk-bearing venture capital is designed to fill, enabling ideas to become commercial ventures.

Oct/Nov 2023

5. How is venture capital broadly defined in the context of business investment?
(A) A short-term loan provided by a bank for managing daily operational expenses
(B) A non-repayable government grant specifically for academic research and development
(C) A long-term equity investment in a business with potential for significant growth
(D) A revolving credit line extended by a bank and secured against tangible assets

Ans :

(C) A long-term equity investment in a business with potential for significant growth
Venture capital is defined as a form of long-term investment made in a business that demonstrates the potential for substantial growth and high financial returns. This investment is typically provided as equity, alongside conditional or conventional loans, with the venture capitalist sharing the risk and aiming for returns based on the venture's ultimate success.

May/June 2019

6. What is the most distinguishing feature of venture capital financing?
(A) It guarantees a fixed annual dividend return, paid out quarterly from company profits
(B) It finances businesses where high loss probability is offset by higher-than-normal expected returns
(C) It is primarily accessible to large, established corporations for funding global expansion
(D) It requires substantial personal collateral, such as property or assets, from the entrepreneur

Ans :

(B) It finances businesses where high loss probability is offset by higher-than-normal expected returns
The most defining characteristic of venture capital is its application to businesses with high uncertainty and a significant probability of loss. Because these ventures are typically in untrodden fields with unquantified risks, they also carry the potential for higher-than-normal returns. Venture capital is specifically structured to finance such high-risk, high-return scenarios.

Oct/Nov 2012

7. Which committee first recommended the creation of venture capital in India in 1972?
(A) The Narasimham Committee
(B) The Rangarajan Committee
(C) The Chelliah Committee
(D) The Bhatt Committee

Ans :

(D) The Bhatt Committee
The concept of venture capital in India was first formally proposed by the Bhatt Committee in 1972. This committee, officially the Committee on Development of Small and Medium Entrepreneurs, emphasized the need for providing such risk capital to support new entrepreneurs and technologists in establishing their industries, thereby fostering innovation and self-reliance.

May/June 2005

8. Which institution launched the first venture capital fund in India, the 'Risk Capital Foundation' (RCF), in 1975?
(A) Industrial Finance Corporation of India (IFCI)
(B) Industrial Development Bank of India (IDBI)
(C) Industrial Credit and Investment Corporation of India (ICICI)
(D) Small Industries Development Bank of India (SIDBI)

Ans :

(A) Industrial Finance Corporation of India (IFCI)
The Industrial Finance Corporation of India (IFCI) was the pioneer of venture capital in India, launching the first dedicated fund, the Risk Capital Foundation (RCF), in the year 1975. The primary objective of the RCF was to supplement the equity of promoters, encouraging professionals and technologists to establish new industrial ventures.

Oct/Nov 2021

9. What was the primary objective of the Seed Capital Scheme launched by IDBI in 1976?
(A) To provide long-term loans for established

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businesses to expand into overseas markets
(B) To offer short-term working capital loans to large corporations for managing inventory
(C) To supplement promoters' equity and encourage new industries, similar to RCF
(D) To fund large-scale government infrastructure projects like roads and power plants

Ans :

(C) To supplement promoters' equity and encourage new industries, similar to RCF
The Industrial Development Bank of India (IDBI) launched the Seed Capital Scheme in 1976 with an objective that mirrored that of the Risk Capital Foundation (RCF). The scheme was designed to provide initial capital to new entrepreneurs, helping them meet their promoter's contribution requirements and thus encouraging the promotion of new industries.

May/June 2014

10. The "Technology Policy Statement" by the Central Government in 1983 gave official patronage to which type of funding?
(A) Venture capital funding
(B) Commercial bank loans
(C) Foreign direct investment
(D) Public sector bonds

Ans :

(A) Venture capital funding
Venture capital funding received official patronage and a significant boost following the announcement of the "Technology Policy Statement" by the Central Government in 1983. This policy outlined guidelines for achieving technological self-reliance through the commercialization of new technologies, creating a favorable environment for venture capital schemes aimed at high-tech, high-risk projects.

Oct/Nov 2007

11. Which organization set up a Venture Capital Scheme in 1986 to encourage new technocrats in high-technology private sector fields?
(A) IFCI
(B) IDBI
(C) SIDBI
(D) ICICI Ltd

Ans :

(D) ICICI Ltd
In 1986, ICICI Ltd established a Venture Capital Scheme specifically to foster innovation in the private sector. The scheme aimed to encourage new technocrats to enter high-technology fields with inherent high risks by allocating funds for assistance in the form of venture capital, targeting activities with both risk and high profit potential.

May/June 2022

12. The Programme for Application of Commercial Technology (PACT) was administered by ICICI with an initial grant from which international agency?
(A) World Bank
(B) USAID
(C) International Monetary Fund (IMF)
(D) Asian Development Bank (ADB)

Ans :

(B) USAID
ICICI undertook the administration of the Programme for Application of Commercial Technology (PACT), which was supported by an initial grant of USD 10 million from the United States Agency for International Development (USAID). The program was designed to finance specific needs of corporate industrial units, aligning with the principles of venture capital funding.

Oct/Nov 2018

13. How was the government's venture capital fund, administered by IDBI starting from April 1, 1986, financed?
(A) Through a direct annual budgetary allocation from the consolidated fund of the Ministry of Finance
(B) Through a dedicated portion of profits generated by designated public sector undertakings
(C) By imposing a Research and Development (R&D) levy on technology purchase payments
(D) By issuing special government-backed bonds specifically targeted to the public for this purpose

Ans :

(C) By imposing a Research and Development (R&D) levy on technology purchase payments
The venture capital fund created by the Central Government and administered by IDBI was financed through a unique mechanism. The government imposed a Research and

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Development (R&D) levy on all payments made for purchasing technology from abroad, as stipulated by the R&D Cess Act, 1986. This levy became the source for funding the venture capital fund.

May/June 2011

14. In 1988, the venture capital operations of ICICI were taken over by which newly founded, ICICI-sponsored company?
(A) Risk Capital and Technology Finance Corporation Ltd. (RCTFC)
(B) Infrastructure Development Finance Company (IDFC)
(C) Gujarat Venture Finance Ltd. (GVFL)
(D) Technology Development and Information Company of India Ltd. (TDICI)

Ans :

(D) Technology Development and Information Company of India Ltd. (TDICI)
In 1988, ICICI sponsored the creation of the Technology Development and Information Company of India Ltd. (TDICI). Effective from July 1, 1988, this new entity took over the existing venture capital operations of ICICI, consolidating them into a specialized company focused on technology development and information-related ventures, which later became ICICI Venture.

Oct/Nov 2006

15. The Risk Capital Foundation (RCF) sponsored by IFCI was converted into which entity in 1988?
(A) Risk Capital and Technology Finance Corporation Ltd. (RCTFC)
(B) Technology Development and Information Company of India Ltd. (TDICI)
(C) Small Industries Development Bank of India (SIDBI)
(D) National Bank for Agriculture and Rural Development (NABARD)

Ans :

(A) Risk Capital and Technology Finance Corporation Ltd. (RCTFC)
In 1988, the Risk Capital Foundation (RCF), which was originally sponsored by IFCI, was corporatized and converted into the Risk Capital and Technology Finance Corporation Ltd. (RCTFC). This new entity not only took over the activities of RCF but also expanded its scope to manage other technology development schemes and venture capital funds.

May/June 2025

16. According to data from the Indian Private Equity and Venture Capital Association (IVCA) and Venture Intelligence (VI), what was the total investment from Venture Capital firms in the Indian start-up ecosystem during the January-July 2021 period?
(A) USD 11.1 billion
(B) USD 17.2 billion
(C) USD 13.0 billion
(D) USD 10.0 billion

Ans :

(B) USD 17.2 billion
The Indian start-up ecosystem received a total of USD 17.2 billion in investments from Venture Capital firms during the period of January to July 2021. This figure was noted as being significantly higher than the investments received in the full years of 2020 (USD 11.1 billion) and 2019 (USD 13.0 billion).

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Oct/Nov 2014

17. What is a primary characteristic of venture capital regarding the form of investment in an investee company?
(A) It is provided largely as secured, long-term debt with a fixed repayment schedule
(B) It is provided largely in the form of equity during the company's initial stage
(C) It is provided as a non-repayable, short-term, interest-free grant for specific projects
(D) It is provided as a revolving line of credit to be used for daily working capital needs

Ans :

(B) It is provided largely in the form of equity during the company's initial stage
A distinguishing characteristic of venture capital is that it is primarily provided in the form of equity. This is particularly crucial during the initial stages when the investee company is unable to float its own shares in the market or secure other forms of financing due to the high degree of risk involved in the new venture.

May/June 2010

18. Which of the following statements about a venture capitalist's involvement in an investee company is correct?
(A) The venture capitalist aids and guides management without participating in day-to-day operations.

Ans :

(B) 10%
To ensure a diversified and controlled ownership structure, the RBI has placed a cap on the shareholding by non-promoter entities in a TReDS platform. Any entity that is not part of the main promoter group is not permitted to hold a stake that is in excess of 10% of the total equity capital of the TReDS.

May/June 2024

66. Consider the following financial criteria for setting up a TReDS platform:
1. The entity must have a minimum paid-up equity capital of Rs. 25 crores.
2. The entity is allowed to assume credit risk to facilitate better pricing.
3. Non-promoter entities are not permitted to hold more than 10% of the equity capital.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(C) 1 and 3 only
Statement 1 is correct, as the minimum required paid-up equity capital is Rs. 25 crores. Statement 3 is also correct, as the shareholding for non-promoters is capped at 10%. However, Statement 2 is incorrect; the guidelines explicitly state that the TReDS entity will not be allowed to assume any credit risk on the transactions it facilitates.

Oct/Nov 2008

67. A large fintech company with a 3-year track record applies to the RBI to set up a TReDS platform. The RBI, as part of its due diligence, seeks feedback from the Enforcement Directorate (ED) and SEBI. This action is part of assessing which eligibility criterion?
(A) The company's technological capability.
(B) The company's financial strength and paid-up capital.
(C) The 'fit and proper' status of the promoters.
(D) The company's proposed Business Continuity Plan.

Ans :

(C) The 'fit and proper' status of the promoters.
The RBI's assessment goes beyond just financial numbers. It must ensure that the promoters are 'fit and proper' to operate such a crucial platform. This involves evaluating their past record of integrity and sound credentials. Seeking feedback from other regulators and enforcement agencies like the ED, SEBI, and CBI is a key part of this due diligence process.

May/June 2006

68. Which of the following is a mandatory technological requirement for an entity operating a TReDS platform?
(A) A network of physical branches in major cities.
(B) A manual surveillance system to check prices and volumes.
(C) A system where information is disseminated on a next-day basis.
(D) A suitable Business Continuity Plan (BCP), including a disaster recovery site.

Ans :

(D) A suitable Business Continuity Plan (BCP), including a disaster recovery site.
To ensure operational resilience and reliability, a TReDS platform must have robust technological foundations. A critical requirement is having a well-defined Business Continuity Plan (BCP) and a functional disaster recovery site. This ensures that the platform's operations can be maintained or quickly restored in the event of a major disruption, protecting all participants.

Oct/Nov 2017

69. A large automobile manufacturer, 'AutoCorp', wants to support its MSME component suppliers by ensuring they get timely and cheap credit. AutoCorp joins a TReDS platform and initiates transactions by approving its suppliers' invoices for financing. What is this specific type of transaction called?
(A) Standard Factoring
(B) Forfaiting
(C) Reverse Factoring
(D) Direct Import Factoring

Ans :

(C) Reverse Factoring
This scenario describes a buyer-led financing program. Instead of the MSME seller initiating the process to sell its receivable, the large corporate buyer (AutoCorp) takes the initiative

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Ans :

(B) Early-stage and Later-stage financing
The lifecycle of venture capital funding is broadly categorized into two principal stages: Early-stage financing and Later-stage financing. Each of these categories is further subdivided into more specific stages that correspond to the evolving needs of the venture capital undertaking as it moves from concept to commercial maturity and expansion.

Oct/Nov 2020

23. Which of the following is considered a part of Early-Stage Financing in the venture capital cycle?
(A) Expansion Finance
(B) Replacement Finance
(C) Turn-Around Financing
(D) Seed Capital Stage

Ans :

(D) Seed Capital Stage
Early-Stage Financing consists of three sub-stages: the Seed Capital stage, the Start-up stage, and Second Round financing. The Seed Capital stage is the very first phase, associated with research and development, concept testing, and prototype creation. Expansion, Replacement, and Turn-Around financing all fall under the category of Later-Stage Financing.

May/June 2006

24. An innovator has developed a novel concept for a high-technology product and has successfully tested it on a laboratory scale. She now needs funds to develop a prototype and explore the possibilities of commercial production. Which specific stage of venture capital financing is she in?
(A) Seed Capital Stage
(B) Start-up Stage
(C) Second Round Financing
(D) Expansion Finance Stage

Ans :

(A) Seed Capital Stage
The innovator is in the Seed Capital Stage. This is the primary stage of financing associated with research, development, and testing an idea or concept on a laboratory scale. The goal is to develop a prototype and assess commercial viability. Due to the very high risk at this point, financing is often provided as low-interest personal loans.

Oct/Nov 2016

25. What type of financing is made available to projects that have been selected for commercial production, which may involve an import substitute or a new service yet to be tried?
(A) Seed Capital
(B) Replacement Finance
(C) Start-up Finance
(D) Buyout Finance

Ans :

(C) Start-up Finance
Start-up finance is provided at the stage where a project has moved beyond the initial R&D phase and is ready for commercial production. This financing supports the launch of a new activity, which could be based on internal R&D, technology transfer, or an import substitute product. The product must have perceived market demand.

May/June 2021

26. In the context of Early-Stage Financing, what is 'Second Round Financing'?
(A) Funds provided post-launch but before the business achieves profitability
(B) Initial funding provided for the primary research and development of a core idea
(C) The very first institutional investment a company receives, often called Series A
(D) Capital used by the company to buy out the shares of early, non-institutional investors

Ans :

(A) Funds provided post-launch but before the business achieves profitability
Second Round Financing is a part of the early-stage financing cycle. It occurs after a product has been launched in the market, but the company has not yet achieved profitability. At this point, attracting new, conventional investors is difficult, so venture capital funds provide these additional funds to sustain operations until profitability is reached.

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Oct/Nov 2005

27. Which of the following is a form of Later Stage Financing?
(A) Seed capital financing
(B) Start-up financing

May/June 2007

36. What is the final stage of the venture capital investment process, which is planned to minimize losses and maximize profits?
(A) Deal Negotiation
(B) Exit Plan
(C) Evaluation
(D) Screening

Ans :

(B) Exit Plan
The final stage of the venture capital financing process is the creation and execution of an Exit Plan. This plan is crucial for the venture capitalist to realize their returns. It is strategically designed based on the nature and extent of the investment to maximize profits and minimize losses, with common exit routes including IPOs or acquisitions.

Oct/Nov 2011

37. As per the process flow diagram, what is the correct sequence of the first four stages in venture capital financing?
(A) Screening, Deal Origination, Evaluation, Deal Negotiation
(B) Deal Origination, Screening, Evaluation, Deal Negotiation
(C) Evaluation, Screening, Deal Origination, Deal Negotiation
(D) Deal Origination, Evaluation, Screening, Deal Negotiation

Ans :

(B) Deal Origination, Screening, Evaluation, Deal Negotiation
The logical and diagrammatic flow of the venture capital process begins with sourcing opportunities (Deal Origination). This is followed by a preliminary filtering of these opportunities (Screening). Promising deals then undergo a detailed analysis (Evaluation), which finally leads to the structuring of the investment terms (Deal Negotiation), before any capital is committed.

May/June 2020

38. Which regulatory body was empowered in 1995 to register and regulate Venture Capital Funds in India, replacing the earlier guidelines from the Controller of Capital Issues?
(A) Securities and Exchange Board of India (SEBI)
(B) Reserve Bank of India (RBI)
(C) Ministry of Finance
(D) Insurance Regulatory and Development Authority (IRDAI)

Ans :

(A) Securities and Exchange Board of India (SEBI)
In 1995, the Securities and Exchange Board of India (SEBI) Act was amended, empowering SEBI to register and regulate Venture Capital Funds in India. Subsequently, in December 1996, SEBI issued its own comprehensive regulations, which replaced the earlier guidelines that had been issued by the Controller of Capital Issues in 1988.

Oct/Nov 2008

39. According to SEBI guidelines, a Venture Capital Fund is defined as a fund established in the form of a trust or a company that has a dedicated pool of capital and does what?
(A) Invests primarily in publicly listed blue-chip stocks
(B) Provides short-term, high-interest loans to individuals
(C) Invests its capital pool in venture capital undertakings
(D) Focuses on developing and financing real estate projects

Ans :

(C) Invests its capital pool in venture capital undertakings
The SEBI definition of a Venture Capital Fund specifies two key conditions. First, it must be a fund set up as a trust or company with a dedicated pool of capital raised in a specified manner. Second, its primary purpose and activity must be to invest this capital into venture capital undertakings in accordance with SEBI regulations.

May/June 2018

40. As per the SEBI guidelines, a "Venture Capital Undertaking" is a domestic company that meets two conditions: "(i) whose shares are not listed on a recognised stock exchange in India, and (ii) which is engaged in the business for providing services, production or manufacture of articles or things and does not include such activities or sectors, which have been included in the negative list by the Board." Based on this definition,

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by which, the venture capitalist scrutinises all the different projects which are available for investing in ventures. The projects are categorised under certain criterion, such as market scope, technology or product, size of investment, geographical location, stage of financing, etc." Based on the excerpt, what is the main purpose of the Screening stage?

(A) To finalize the terms and conditions of the investment.
(B) To filter and categorize potential investment projects based on set criteria.
(C) To perform a detailed study of the entrepreneur's track record.
(D) To create an exit plan for the investment.

Ans :

(B) To filter and categorize potential investment projects based on set criteria.
As described in the excerpt, the Screening stage involves the venture capitalist scrutinizing and categorizing available projects. This is a filtering process where ventures are assessed against specific criteria like market scope, technology, and investment size to determine which proposals warrant a more detailed evaluation, effectively narrowing down the pool of potential investments.

Oct/Nov 2019

33. During which stage of the venture capital process are an entrepreneur's technical competence, manufacturing abilities, and entrepreneurial skills closely examined?

(A) Deal Origination
(B) Screening
(C) Evaluation
(D) Post-investment activity

Ans :

(C) Evaluation
The Evaluation stage involves a thorough and detailed study of the short-listed proposals. This goes beyond the project's capacity to also assess the capabilities of the promoters themselves. Qualities such as entrepreneurial skills, technical competence, manufacturing know-how, and marketing abilities are critically considered to gauge their capacity to execute the business plan successfully.

May/June 2012

34. A venture capitalist has evaluated a promising start-up and is now discussing the percentage of equity they will receive, the amount of capital to be injected, and their rights as an investor. Which stage of the venture capital financing process are they in?

(A) Screening
(B) Evaluation
(C) Post-investment activity
(D) Deal Negotiation

Ans :

(D) Deal Negotiation
The scenario describes the Deal Negotiation stage. After a positive evaluation, both parties—the venture capitalist and the entrepreneur—put forward their demands to formulate mutually beneficial terms. Key factors negotiated during this stage include the investment amount, the percentage of profit or equity stake for the VC, and the specific rights of each party.

Oct/Nov 2017

35. Which statement accurately describes the venture capitalist's role during the 'Post-investment activity' stage?

(A) The VC takes over all daily operational activities of the firm, including hiring and product development.
(B) The VC becomes a part of the venture but does not participate in daily activities, often holding a board seat.
(C) The VC's involvement ends completely after the funds are transferred, with no further contact.
(D) The VC's only role is to immediately prepare for a public offering of the company's shares.

Ans :

(B) The VC becomes a part of the venture but does not participate in daily activities, often holding a board seat.
In the Post-investment activity stage, the venture capitalist becomes a partner in the venture but refrains from engaging in day-to-day operations. Their involvement is typically strategic, often through representation on the Board of Directors, to monitor progress, provide guidance, and ensure the enterprise operates according to the agreed-upon plan, especially during financial risk situations.

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individual investor by way of issue of units, as per SEBI regulations?
(A) Rs. 1 lakh
(B) Rs. 5 lakhs
(C) Rs. 10 lakhs
(D) Rs. 25 lakhs

Ans :

(B) Rs. 5 lakhs
According to the SEBI regulations concerning resources for Venture Capital Funds, a fund may raise money from any investor (Indian, foreign, or NRI). However, there is a stipulation that the minimum amount accepted from any single investor through the issue of units must be Rs. 5 lakhs, making it an investment for high-net-worth individuals.

Oct/Nov 2022

45. Before starting its operations, what is the minimum firm commitment a Venture Capital Fund must have from its investors for each scheme launched?
(A) Rs. 1 crore
(B) Rs. 10 crores
(C) Rs. 5 crores
(D) Rs. 50 crores

Ans :

(C) Rs. 5 crores
The SEBI regulations mandate that each scheme launched or fund set up by a venture capital fund must secure a firm commitment from its investors to contribute at least Rs. 5 crores before it can commence its operations. This ensures that the fund has a minimum viable corpus to begin its investment activities effectively.

May/June 2009

46. Venture capital funds provide finance through different modes which are traditionally divided into which two instrument categories?
(A) Grants and Subsidies
(B) Futures and Options
(C) Equity and Debt instruments
(D) Warrants and Debentures

Ans :

(C) Equity and Debt instruments
The financing instruments used by venture capital funds are traditionally categorized into two main types: equity instruments and debt instruments. VCFs often use a combination of both, selecting the specific instrument based on the financing stage, the degree of risk involved, and the specific financial needs of the venture capital undertaking.

Oct/Nov 2015

47. Which type of equity instrument may be issued by a start-up to a VCF that carries a higher dividend but confers no voting rights on the investor?
(A) Ordinary Shares
(B) Participating Preference Shares
(C) Non-voting equity shares
(D) Cumulative Preference Shares

Ans :

(C) Non-voting equity shares
While ordinary shares confer ownership and voting rights, a company can also issue non-voting equity shares. These shares typically compensate the investor for the lack of voting rights by offering a slightly higher dividend rate. This allows the founders to retain more control while still raising equity capital from the venture capitalist.

May/June 2014

48. What is the key feature of convertible preference shares as a mode of venture capital financing?
(A) They offer a fixed interest rate and are repaid in scheduled installments
(B) They can be exchanged for a pre-determined number of equity shares
(C) They provide a dividend payment only after all ordinary shareholders are paid
(D) They do not carry any right to receive dividends under any circumstances

Ans :

(B) They can be exchanged for a pre-determined number of equity shares
Convertible preference shares are a hybrid instrument. They initially function like preference shares, often providing a specified dividend. Their key feature is the option to be converted or exchanged into a predetermined number of ordinary equity shares at a later date, allowing the VCF to participate in the company's upside potential.

Oct/Nov 2013

49. A VCF is investing in a very early-stage company that is not expected to generate profits or be able to pay dividends for several years. The VCF

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which entity would qualify as a Venture Capital Undertaking?

(A) An unlisted domestic company manufacturing innovative electronic components.
(B) A publicly traded IT services company listed on the NSE.
(C) An unlisted company engaged solely in gold financing.
(D) A foreign company producing consumer goods for its home market.

Ans :

(A) An unlisted domestic company manufacturing innovative electronic components.
Based on the provided definition, a Venture Capital Undertaking must be an unlisted domestic company. The company manufacturing electronic components fits this criterion. The publicly traded company is disqualified for being listed, the gold financing company for being on the negative list, and the foreign company for not being a domestic entity.

Oct/Nov 2025

41. Which of the following activities is included in the 'negative list' by SEBI, meaning Venture Capital Funds are generally not permitted to invest in them?

(A) Biotechnology research
(B) Software development
(C) Real estate
(D) E-commerce platforms

Ans :

(C) Real estate
The SEBI regulations for Venture Capital Funds specify a negative list of activities in which they are not supposed to invest. This list includes real estate, non-banking financial services, and gold financing. The purpose is to direct venture capital towards productive, innovative, and technology-oriented sectors rather than asset holding or conventional financing activities.

May/June 2015

42. Consider the following statements regarding SEBI's definition of a "venture capital fund": 1. It is an Alternative Investment Fund that invests primarily in listed securities of start-ups. 2. It can be involved in new products, new services, or intellectual property-right based activities. 3. It shall include an angel fund. Which of the statements is/are correct?

(A) 1 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(B) 2 and 3 only
Statement 1 is incorrect because VCFs invest primarily in unlisted securities. Statement 2 is correct, as VCFs focus on undertakings involved in new products, services, technology, or IP-based activities. Statement 3 is also correct, as the definition explicitly states that a venture capital fund shall include an angel fund.

Oct/Nov 2021

43. Consider the following conditions for the registration of a Venture Capital Fund with SEBI: "(i) The memorandum of association... must specify, as its main objective, the details of business activity of the venture capital fund. (ii) It is prohibited... from making an invitation to the public to subscribe to its securities. (iii) Its director... has not been... convicted of an offence involving moral turpitude or any economic offence." Which of the following would disqualify an applicant from being registered as a VCF?

(A) The applicant is a trust, not a company.
(B) The main objective in the MoA is clearly stated as investing in start-ups.
(C) A director was involved in a civil litigation unrelated to the securities market.
(D) The applicant plans to issue a prospectus for a public offering.

Ans :

(D) The applicant plans to issue a prospectus for a public offering.
As per condition (ii), a VCF is explicitly prohibited from making an invitation to the public to subscribe to its securities. Planning to issue a prospectus for a public offering is a direct violation of this rule and would therefore disqualify the applicant. The other options are either permissible or do not directly contravene the stated conditions.

May/June 2016

44. What is the minimum amount that a Venture Capital Fund in India can accept from an

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and Buyout Deals, all of which apply to more established businesses that have moved beyond the initial early stages of development.

Oct/Nov 2007

63. Assertion (A): A venture capitalist does not intend to retain their investment in an investee company indefinitely.
Reason (R): The primary goal of a venture capitalist is to earn returns through capital gains arising from the sale of equity holdings, which are then reinvested in new ventures.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that VCs do not hold investments forever is true. The reason provided is also true and correctly explains why. The VC business model is a cycle of investing, growing, and exiting. The exit, which generates capital gains, is essential to free up funds for the next investment, making the temporary nature of the investment fundamental.

May/June 2013

64. Match the following venture capital schemes/ entities with the year they were established.
List-I (Scheme/Entity)
P. Risk Capital Foundation (RCF)
Q. Seed Capital Scheme by IDBI
R. Venture Capital Scheme by ICICI
S. TDICI Founded
List-II (Year)
1. 1986
2. 1988
3. 1975
4. 1976
Code:
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

Ans :

(A) P-3, Q-4, R-1, S-2

The correct chronological matching is: The Risk Capital Foundation (RCF) was launched by IFCI in 1975. The Seed Capital Scheme was launched by IDBI in 1976. ICICI set up its Venture Capital Scheme in 1986. The Technology Development and Information Company of India Ltd. (TDICI) was founded in 1988.

Oct/Nov 2017

65. Consider the following statements about the process of venture capital financing:
1. The process begins with Deal Negotiation to set terms.
2. Screening involves a detailed study of the entrepreneur's track record.
3. Deal Origination is often done through a referral system.
4. The final step is to create an Exit Plan.
Which of the statements are correct?
(A) 1 and 2 only
(B) 3 and 4 only
(C) 1, 2, and 3 only
(D) 2, 3, and 4 only

Ans :

(B) 3 and 4 only
Statement 1 is incorrect; the process begins with Deal Origination. Statement 2 is incorrect; the detailed study of the entrepreneur occurs during the Evaluation stage, not Screening. Statement 3 is correct as referral systems are a common source of deals. Statement 4 is also correct, as the Exit Plan is the final stage.

May/June 2007

66. Identify the correct pair of a financing stage and its description.
(A) Expansion Finance: Funding to add production capacity for a company that has gained market share.
(B) Seed Capital: Funding for a company that is operating at a loss to help it revive.
(C) Start-up Stage: Financing for initial R&D and prototype development.
(D) Replacement Finance: Funding to launch a new product that has just completed R&D.

Ans :

(A) Expansion Finance: Funding to add production capacity for a company that has gained market share.
Expansion Finance correctly describes funding provided to a successful, established enterprise

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wants to ensure it receives some form of fixed return during these initial years. Which mode of financing would be most suitable for the VCF in this situation?
(A) Ordinary Shares
(B) Debt Instruments
(C) Non-voting Equity Shares
(D) Participating Preference Shares

Ans :

(B) Debt Instruments
In situations where equity shares are unlikely to provide any return in the early years, VCFs may prefer to use debt instruments. These instruments, such as conventional or convertible loans, can provide a fixed return in the form of interest, ensuring the VCF receives some cash flow from its investment before the company becomes profitable.

May/June 2023

50. What defines a 'conditional loan' in the context of venture capital debt instruments?
(A) A loan that carries a high, fixed rate of interest and must be repaid in monthly installments
(B) A loan that is automatically convertible into equity at the option of the entrepreneur
(C) A loan with no interest, repayable as a royalty on future sales revenue
(D) A standard term loan from a bank that is fully secured against the company's physical assets

Ans :

(C) A loan with no interest, repayable as a royalty on future sales revenue
A conditional loan is a unique debt instrument used in venture financing. It typically does not carry a fixed interest rate. Instead, repayment is 'conditional' upon the success of the venture. The loan is repaid to the lender in the form of a royalty on sales after the undertaking starts generating revenue.

Oct/Nov 2020

51. Which of the following is listed as a primary disadvantage of venture capital financing for an entrepreneur?
(A) The investor typically has no business expertise to offer beyond the initial capital provided
(B) The entrepreneur is personally obligated to repay the full investment amount if the business fails
(C) The founder's autonomy and control are reduced as the investor becomes a part owner
(D) The amount of finance provided is typically very small compared to traditional bank loans

Ans :

(C) The founder's autonomy and control are reduced as the investor becomes a part owner
A significant disadvantage for a founder accepting venture capital is the dilution of ownership and control. By taking an equity stake, the venture capitalist becomes a part-owner and gains influence over strategic decisions, often through a board seat. This means the founder no longer has complete autonomy over their company's direction.

May/June 2006

52. Consider the following points listed as advantages/ disadvantages of VC financing: "• The autonomy and control of the founder is lost, as the investor becomes a part owner. • The process is lengthy and complex, as it involves a high degree of risk. • Although the investment is time taking and uncertain, the wealth and expertise it brings to the investor/s, is huge. • The entrepreneur is at a safer position, as the business does not run on the obligation to repay money..." Which point highlights an advantage for the entrepreneur?
(A) The loss of autonomy and control.
(B) The lack of obligation to repay the money.
(C) The lengthy and complex process.
(D) The wealth and expertise brought is huge for the investor.

Ans :

(B) The lack of obligation to repay the money.
For the entrepreneur, a key advantage of equity-based venture capital is that it is not a loan that must be repaid. The investor shares the risk, and if the venture fails, the entrepreneur is not personally obligated to repay the invested capital. This places the entrepreneur in a safer position compared to taking on traditional debt.

Oct/Nov 2011

53. What is the primary aim of a venture capitalist when they seek an 'exit route'?
(A) To take permanent operational control of the investee company's management
(B) To convert their equity holdings into long-

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(C) Second round financing
(D) Expansion finance

Ans :

(D) Expansion finance
Later Stage Financing occurs when a business is already established. It includes several forms, such as Expansion Finance, Replacement Finance, Turn-Around, and Buyout Deals. Expansion finance is specifically provided to an enterprise that has gained market share and needs capital to increase its production capacity to meet growing demand.

May/June 2016

28. When a venture capitalist purchases shares from existing shareholders of a company who wish to exit, and the promoters do not intend to list the shares, what is this form of financing called?
(A) Expansion Finance
(B) Replacement Finance
(C) Turn-Around Financing
(D) Seed Capital

Ans :

(B) Replacement Finance
This scenario describes Replacement Finance. In this form of later-stage financing, the venture capitalist provides funds by purchasing the shares of existing investors who want to exit the company. This is common when promoters do not plan a public listing, and the new VC sees potential for growth and capital gains over a 3-to-5-year period.

Oct/Nov 2013

29. A company that successfully passed its early stages is now consistently operating at a loss. The management plans to revive the company by modernizing its operations and reorganizing its product lines. What type of specialized venture capital financing would be required for this purpose?
(A) Start-up Finance
(B) Expansion Finance
(C) Turn-Around Financing
(D) Replacement Finance

Ans :

(C) Turn-Around Financing
The company requires Turn-Around Financing. This type of funding is provided to a company that is operating at a loss after its initial stages and needs a significant infusion of capital to implement revival strategies. These strategies can include modernization, operational changes, or aggressive marketing. It is a riskier proposition, often undertaken by the original VC investor.

May/June 2023

30. What does a 'management buyout' financed by a venture capitalist typically involve?
(A) The venture capitalist's firm taking over the complete management of the company
(B) The company's management team selling their personal shares to the public via an IPO
(C) The company using its own profits to buy back its shares from the open stock market
(D) An active group of shareholders buying the shares of a passive group of shareholders

Ans :

(D) An active group of shareholders buying the shares of a passive group of shareholders
A management buyout, in the context of venture capital, refers to a transaction where an active group of shareholders (often the management team) purchases the shares of another, more passive group of shareholders. Venture capitalists may provide the necessary 'buyout financing' for this transaction, enabling the active managers to consolidate control and benefit from their efforts.

Oct/Nov 2022

31. What is the primary step in the venture capital financing process, often sourced through a referral system?
(A) Screening
(B) Evaluation
(C) Deal Origination
(D) Deal Negotiation

Ans :

(C) Deal Origination
The venture capital financing process begins with Deal Origination. This is the initial step of sourcing potential investment opportunities. One of the most common methods for deal origination is the referral system, where proposals are referred to the venture capitalist by their network of business partners, parent organizations, friends, and other contacts.

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May/June 2009

32. Read the following excerpt about a step in the VC financing process: "Screening is the process

shares.
(B) When the VC has provided debt financing to the investee company.
(C) When the company is being sold to a strategic acquirer.
(D) When the company is undergoing an Initial Public Offering.

Ans :

(B) When the VC has provided debt financing to the investee company.
The Self-liquidating Process is an exit route specifically related to debt financing. When a venture capitalist has provided loans, the exit is naturally built into the loan's structure. The principal amount and interest are repaid in installments over a specified period, so the investment 'self-liquidates' over time without requiring a separate exit event.

Oct/Nov 2014

59. Under what circumstances would a venture capitalist resort to the 'Liquidation of the Investee Company' as an exit strategy?
(A) When the company is highly profitable and ready for an IPO.
(B) When the promoters wish to buy back the VC's shares.
(C) When the investee company fails to become profitable and incurs losses.
(D) When a new venture capitalist offers to buy the VC's stake.

Ans :

(C) When the investee company fails to become profitable and incurs losses.
Liquidation is the exit route of last resort. A venture capitalist pursues this path when the investee company is unsuccessful, fails to achieve profitability, and continues to incur losses. After attempts at negotiation or settlement fail, the VC may initiate court proceedings to wind up the enterprise and recover their investment from the sale of assets.

May/June 2005

60. Which of the following statements about venture capital is incorrect?
(A) Venture capital is a long-term investment.
(B) Venture capitalists finance established, low-risk projects.
(C) Finance for new projects is inherently riskier.
(D) Venture capitalists invest where the probability of failure is high.

Ans :

(B) Venture capitalists finance established, low-risk projects.
Venture capitalists specifically target new, high-risk, and unproven projects with high growth potential, not established, low-risk ones. Established projects can typically secure funding from traditional sources. The core premise of venture capital is to provide risk-bearing capital to ventures that are too uncertain for conventional financiers, making this statement incorrect.

Oct/Nov 2009

61. Identify the incorrect statement regarding the characteristics of venture capital funding.
(A) Investments are generally made by buying equity shares in a start-up.
(B) The provider of venture capital can participate in the management of the company.
(C) The investments are primarily based on short-term goals for quick returns.
(D) They are high-risk investments made with the intention of making high profits.

Ans :

(C) The investments are primarily based on short-term goals for quick returns.
Venture capital investments are fundamentally based on long-term goals. It takes several years for a start-up to grow and mature to a point where an exit is possible. The venture capitalist's strategy involves nurturing the company over this extended period to maximize its value, making the pursuit of quick, short-term returns contrary to the model.

May/June 2010

62. Which of the following financing types is NOT considered part of Later-Stage Financing?
(A) Expansion finance
(B) Buyout deals
(C) Second round finance
(D) Replacement finance

Ans :

(C) Second round finance
Second round finance is a component of Early-Stage Financing, occurring after the start-up phase but before profitability. Later-Stage Financing includes Expansion Finance, Replacement Finance, Turn-Around Financing,

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term debt instruments with fixed returns
(C) To realize capital appreciation and reinvest the funds in new ventures
(D) To liquidate all of the company's assets in order to recover their initial investment

Ans :

(C) To realize capital appreciation and reinvest the funds in new ventures
The primary goal of an exit route is for the venture capitalist to disinvest from the company at the earliest opportune moment. This allows them to realize the capital appreciation on their investment—the main source of their profit—and subsequently use that capital to finance another new venture capital undertaking, thereby continuing their investment cycle.

May/June 2012

54. Which exit route involves the venture capitalist selling their holdings to the general public after the investee company's shares are listed on a stock exchange?
(A) Buy back of Shares by the Promoters
(B) Sale to a New Venture Capitalist
(C) Self-liquidating Process
(D) Initial Public Offering (IPO)

Ans :

(D) Initial Public Offering (IPO)
An Initial Public Offering (IPO) is a classic exit route for a venture capitalist. When the investee company becomes successful and its shares are listed on a stock exchange, the VC can sell their shareholdings to the public, often at a significant premium, thereby realizing the returns on their initial investment.

Oct/Nov 2008

55. A venture capitalist has an agreement with a portfolio company that gives the original founders the first opportunity to purchase the VC's shares at the prevailing market price. This clause describes which type of exit route?
(A) Buy back of Shares by the Promoters
(B) Initial Public Offering (IPO)
(C) Sale of Enterprise to another Company
(D) Liquidation of the Investee Company

Ans :

(A) Buy back of Shares by the Promoters
This scenario describes the 'Buy back of Shares by the Promoters' exit route. It is common for the initial investment agreement to include a clause giving the promoters the right of first refusal to buy back the venture capitalist's shares. This allows the founders to regain the equity they gave up once they are able to finance the purchase.

May/June 2020

56. When a venture capitalist sells their entire equity holding in an enterprise to an outsider who is interested in buying the whole company from the entrepreneur, this exit route is known as:
(A) Sale to a New Venture Capitalist
(B) Sale of Enterprise to another Company
(C) Buy back by Promoters
(D) Initial Public Offering

Ans :

(B) Sale of Enterprise to another Company
This exit strategy is the Sale of Enterprise to another Company, also known as a strategic acquisition or merger. In this case, the venture capitalist, along with the entrepreneur, sells the entire company to another, often larger, company. The VC recovers their investment and returns from the proceeds of this complete sale.

Oct/Nov 2016

57. What is a 'distress sale' in the context of venture capital exit routes?
(A) A highly profitable sale of shares to the public during a bullish stock market period
(B) The sale of a VC's equity stake to a new VC, often in a troubled enterprise
(C) The orderly sale of all company assets during a planned and voluntary liquidation process
(D) A pre-arranged sale of shares back to the company's promoters at a negotiated price

Ans :

(B) The sale of a VC's equity stake to a new VC, often in a troubled enterprise
A 'distress sale' can occur when a venture capitalist sells their stake to a new venture capital company. This may happen if the original VC needs to exit an underperforming or troubled investment to realize whatever value is left. Alternatively, it can be a strategic sale to bring in a new VC with a better appetite for risk.

May/June 2018

58. The 'Self-liquidating Process' as an exit route is applicable under which financing condition?
(A) When the VC holds only ordinary equity

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to increase its capacity to meet growing demand. Seed Capital is for R&D, not revival. Start-up finance is for launching production, not R&D. Replacement Finance is for buying out existing shareholders, not for a new product launch.

Oct/Nov 2012

67. Which of the following statements is/are correct regarding the regulatory aspects of Venture Capital Funds in India?

1. VCFs are prohibited from inviting the public to subscribe to their securities.
2. The minimum investment from a single investor is Rs. 10 lakhs.
3. Each VCF scheme must have a firm commitment of at least Rs. 5 crores before starting operations.

(A) 1 and 3 only
(B) 2 only
(C) 1 and 2 only
(D) 1, 2, and 3

Ans :

(A) 1 and 3 only
Statement 1 is correct; VCFs raise capital privately. Statement 2 is incorrect; the minimum investment amount from an investor is Rs. 5 lakhs, not Rs. 10 lakhs. Statement 3 is correct; a minimum corpus of Rs. 5 crores is required as a firm commitment before a scheme can begin its operations.

May/June 2011

68. An entrepreneur has an innovative idea but lacks his own capital. The idea has not been tried on a commercial scale, making it risky but with high potential returns. Which concept best describes the type of funding suitable for this situation?

(A) Commercial Bank Loan
(B) Trade Credit
(C) Venture Capital
(D) Public Issue of Shares

Ans :

(C) Venture Capital
This scenario perfectly describes the problem that venture capital aims to solve. It provides risk-bearing capital to new entrepreneurs with innovative but commercially unproven ideas. These ventures are too risky for traditional banks and are not mature enough for a public issue, making venture capital the ideal financing mechanism.

Oct/Nov 2006

69. Which of the following is NOT a valid exit route for a venture capitalist?

(A) Initial Public Offering (IPO)
(B) Sale of the enterprise to another company
(C) Perpetual holding of the investment for continuous dividends
(D) Buy back of shares by the promoters

Ans :

(C) Perpetual holding of the investment for continuous dividends
Venture capitalists do not intend to hold their investments perpetually. Their business model relies on exiting investments to realize capital gains and reinvest the proceeds into new ventures. While they may receive dividends, their primary goal is capital appreciation via an exit, making perpetual holding an invalid strategy.

May/June 2025

70. Arrange the following steps of the venture capital financing process in the correct chronological order.

1. Deal Negotiation
2. Post-investment Activity
3. Screening
4. Deal Origination
5. Evaluation

(A) 4, 3, 5, 1, 2
(B) 3, 4, 1, 5, 2
(C) 4, 5, 3, 1, 2
(D) 1, 4, 3, 5, 2

Ans :

(A) 4, 3, 5, 1, 2
The correct sequence is: The process starts with sourcing deals (Deal Origination - 4). Then, these deals are filtered (Screening - 3). Shortlisted deals are thoroughly analyzed (Evaluation - 5). Terms are then finalized (Deal Negotiation - 1). Finally, after the investment is made, the VC engages in monitoring and support (Post-investment Activity - 2).

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useful economic life of the asset. For example, an aircraft with a 25-year life might be leased for only 5 years. This allows the lessor to recover the asset's cost by leasing it out to multiple lessees over its entire lifespan.

May/June 2013

10. In an operating lease for assets like computers or windmills, who is typically responsible for maintenance, insurance, and other related expenses?

(A) The lessor, who bundles these services into the lease rental.
(B) The lessee, who must cover all upkeep costs independently.
(C) The end-user of the services produced by the asset, such as a data-entry operator.
(D) A consortium of all lessees using the asset, who share the costs proportionally.

Ans :

(A) The lessor, who bundles these services into the lease rental.
Unlike a finance lease, in an operating lease, the lessor retains the responsibility for all associated costs. This includes all kinds of maintenance, insurance, and any other expenses related to the leased asset. The lease rental paid by the lessee in this arrangement covers both the use of the asset and these associated services provided by the lessor.

Oct/Nov 2011

11. Based on the differences between a finance lease and an operating lease, which of the following statements is correct?

(A) A finance lease is revocable at short notice, while an operating lease is a non-cancellable contract.
(B) The risk of obsolescence is borne by the lessor in a finance lease and by the lessee in an operating lease.
(C) The duration of an operating lease is generally for the whole useful life of the asset being financed.
(D) An option to purchase the asset is typically available in a finance lease but not in an operating lease.

Ans :

(D) An option to purchase the asset is typically available in a finance lease but not in an operating lease.
A key distinction lies in the end-of-term options. A finance lease contract often provides the lessee with an option to purchase the asset at the end of the lease period. Conversely, an operating lease contract, being short-term and service-oriented, generally does not include such a purchase option; the asset is simply returned to the lessor.

May/June 2021

12. Identify the incorrect statement regarding the differences between a finance lease and an operating lease.

(A) In a finance lease, maintenance costs are borne by the lessee.
(B) The risk of obsolescence is borne by the lessee in an operating lease.
(C) An operating lease contract is generally revocable.
(D) A finance lease is generally for the whole useful life of the asset.

Ans :

(B) The risk of obsolescence is borne by the lessee in an operating lease.
This statement is incorrect. In an operating lease, the lessor bears the risk of obsolescence because they retain ownership and must find new lessees or dispose of the asset if it becomes outdated. In a finance lease, which covers the asset's economic life, the lessee effectively bears the risk of the asset becoming technologically obsolete during the lease term.

Oct/Nov 2014

13. A lease agreement where the lessee has the option of purchasing the asset at the end of the lease period is known as what type of lease?

(A) Close-ended lease
(B) Up-front lease
(C) Open-ended lease
(D) Back-end lease

Ans :

(C) Open-ended lease
An open-ended lease provides the lessee with flexibility at the conclusion of the contract period. Specifically, it grants the lessee the option to purchase the asset. This contrasts with a close-ended lease, where the asset is simply transferred back to the lessor at the end of the lease term without a purchase option for the lessee.

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(A) The Narasimham Committee, which focused on overall financial sector reforms.
(B) The Rangarajan Committee, which dealt with public sector disinvestment policies.
(C) The G S Dahotre Committee, which specifically addressed bank financing for leasing.
(D) The Shah Committee, which reviewed infrastructure financing and development.

Ans :

(C) The G S Dahotre Committee, which specifically addressed bank financing for leasing.
A significant phase in the development of Indian leasing involved the G S Dahotre Committee. Based on its recommendations, the Reserve Bank of India (RBI) established formal guidelines for commercial banks that were involved in funding leasing companies. This helped in structuring the financial support provided by banks to the leasing sector, promoting its growth.

May/June 2024

6. In what year were commercial banks in India, such as the State Bank of India and Bank of India, permitted to offer leasing facilities directly through specialized branches?
(A) 1983
(B) 1994
(C) 1991
(D) 2001

Ans :

(B) 1994
While banks were funding leasing companies earlier, they were allowed to directly offer leasing facilities themselves later in the year 1994. Following this permission, major public sector banks like the State Bank of India and Bank of India established specialized branches specifically to handle lease financing activities, broadening the market for leasing services in India.

Oct/Nov 2016

7. Which type of lease is also referred to as a "capital lease" and typically covers the full useful economic life of the asset?
(A) Operating lease, which is a short-term and cancellable agreement.
(B) Sale and lease-back, which involves selling an owned asset and leasing it back.
(C) Leveraged lease, which involves a third-party lender financing a large portion of the asset.
(D) Finance lease, which is a non-cancellable, long-term agreement amortizing the asset's cost.

Ans :

(D) Finance lease, which is a non-cancellable, long-term agreement amortizing the asset's cost.
A finance lease, also known as a capital lease, is a long-term lease agreement. Its duration usually covers the full useful economic life of the asset, or a period very close to it. The primary objective for the lessor is to recover the full cost of the asset plus an interest component through the lease rentals collected.

May/June 2007

8. In a finance lease agreement, who is generally responsible for the repair and maintenance of the leased asset?
(A) The lessee
(B) The lessor
(C) The original equipment manufacturer
(D) An appointed third-party service provider

Ans :

(A) The lessee
A key characteristic of a finance lease is that the responsibility for the repair and maintenance of the asset generally lies with the lessee. The lease payment is considered a payment for the use of the asset only. Since the lease term is long, the lessee's position is similar to that of an owner, including the responsibility for upkeep.

Oct/Nov 2025

9. What is a defining characteristic of an operating lease regarding the lease period?
(A) The lease period covers the entire economic life of the asset, making it similar to a purchase.
(B) The lease contract is a non-cancellable, long-term commitment for the asset's full value.
(C) The period of the lease is short compared to the asset's useful life.
(D) The lease period is automatically extended year-on-year until the asset becomes obsolete.

Ans :

(C) The period of the lease is short compared to the asset's useful life.
An operating lease is characterized by a lease period that is significantly shorter than the total

NODIA

CHAPTER 39

Lease Finance and Hire Purchase

Oct/Nov 2012

1. According to the fundamental definition of lease finance, what right is transferred from the lessor to the lessee?

(A) The right of legal ownership of the asset for the duration of the lease.

(B) The exclusive right to use the asset for an agreed period.

(C) The right to sell or otherwise dispose of the asset after the lease period.

(D) The right to permanently modify or alter the asset's structure.

Ans :

(B) The exclusive right to use the asset for an agreed period.

A lease is a contract where the owner (lessor) grants another person (lessee) the exclusive right to use an asset for an agreed time. This is in return for a payment known as lease rental. Ownership of the asset remains with the lessor, while the possession and economic use are vested in the lessee for the contract duration.

May/June 2005

2. In a standard leasing agreement, who retains the legal ownership of the asset throughout the lease term?

(A) The lessor

(B) The lessee

(C) The bank financing the lease

(D) The original manufacturer of the asset

Ans :

(A) The lessor

A core principle of leasing is the separation of ownership from use. The lessor, who is the owner of the asset, grants the right of use to the lessee. However, the legal title and ownership of the asset remain with the lessor for the entire duration of the lease agreement, only transferring possession and economic use to the lessee.

Oct/Nov 2020

3. What was the name of the first leasing company established in India in 1973?

(A) 20th Century Finance Corporation

(B) Sundaram Finance Ltd.

(C) First Leasing Company of India Ltd.

(D) ICICI Leasing Division

Ans :

(C) First Leasing Company of India Ltd.

The history of organized leasing in India began in 1973 with the establishment of the First Leasing Company of India Ltd. It was set up by Farouk Irani in collaboration with industrialist Shri A C Muthiah. This company was the sole player in the Indian leasing market for several years until other corporations entered the field.

May/June 2018

4. Which financial institution's entry into the leasing industry in 1983 provided a significant boost to the concept's growth in India?

(A) State Bank of India (SBI)

(B) International Finance Corporation (IFC)

(C) Industrial Development Bank of India (IDBI)

(D) Industrial Credit and Investment Corporation of India (ICICI)

Ans :

(D) Industrial Credit and Investment Corporation of India (ICICI)

The third stage of growth in the Indian leasing industry, starting in late 1982, saw the entry of numerous financial institutions. Among them, the entry of the Industrial Credit and Investment Corporation of India (ICICI) in 1983 was particularly prominent, as it gave a major boost and credibility to the concept of leasing in the country.

Oct/Nov 2009

5. The recommendations of which committee led the Reserve Bank of India (RBI) to formulate guidelines for commercial banks funding leasing companies?

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May/June 2019

14. What is a "back-end lease"?

(A) A lease where rentals are higher in the initial years and lower in later years.

(B) A lease where the asset is returned to the lessor at the end of the period.

(C) A lease that includes a mandatory purchase option for the lessee.

(D) A lease where rentals are lower in the initial years and increase in later years.

Ans :

(D) A lease where rentals are lower in the initial years and increase in later years.

A back-end lease is structured to have lower lease rental payments during the initial years of the contract, with the payments increasing in the later years. This can be beneficial for new businesses or projects that expect their revenue to grow over time. It is the opposite of an up-front lease, which features higher initial rentals.

Oct/Nov 2022

15. A cross-border lease is defined by which characteristic?

(A) The lessee and the lessor are situated in two different countries.

(B) The asset is transported across multiple international borders during use.

(C) The lease agreement is governed by the laws of multiple countries.

(D) The lease involves high-value assets used for international trade.

Ans :

(A) The lessee and the lessor are situated in two different countries.

A cross-border lease, also referred to as an international lease, is fundamentally defined by the geographical location of the parties involved. In this type of arrangement, the lessor (the owner of the asset) and the lessee (the user of the asset) are based in two different countries, which adds complexity regarding legal jurisdiction, taxes, and currency.

May/June 2015

16. In which type of lease financing arrangement does the lessor act as an equity participant, supplying only a part of the asset's cost while borrowing the rest?

(A) Direct lease, where the lessor buys the asset directly for the lessee.

(B) Leveraged lease, where the lessor borrows funds to finance the asset.

(C) Sale and lease-back, where a company sells its own asset and leases it back.

(D) Operating lease, where the lease term is shorter than the asset's economic life.

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Ans :

(B) Leveraged lease, where the lessor borrows funds to finance the asset.

A leveraged lease is a structure used for financing costly assets. In this arrangement, the lessor provides only a portion of the asset's purchase price (the equity portion) and borrows the remaining amount from lenders. The loan is secured by the asset itself and the lease rentals, which are used to service the debt before the lessor receives any surplus.

Oct/Nov 2006

17. Which of the following lease arrangements is most suitable for a company that owns its fixed assets but is currently facing a shortage of funds for its operations?

(A) A direct lease, where the company leases a brand new asset from a lessor.

(B) A sale and lease-back, where the company sells its asset and leases it back.

(C) A leveraged lease, which is used for financing new, high-cost assets with debt.

(D) A percentage lease, where rent is tied to the revenue generated by the asset.

Ans :

(B) A sale and lease-back, where the company sells its asset and leases it back.

A sale and lease-back arrangement is specifically designed for this situation. The company, which is the to-be lessee, sells the assets it already owns to a lessor and then immediately leases them back. This allows the company to receive a significant infusion of cash from the sale while retaining the continuous use of the essential assets for its business.

May/June 2010

18. In a 'direct lease' arrangement, who is responsible for purchasing the asset from the manufacturer or supplier?

(A) The lessor, who procures the asset for the lessee.

(B) The lessee, who then transfers ownership to the lessor.

Paying lease rentals is the primary obligation of the lessee, not the lessor. The lessor's duties include delivering the asset, ensuring the lessee has the legal right to use it (authorisation), and guaranteeing the lessee's peaceful possession of the asset during the lease period without interference from the lessor or any third party with a superior claim.

Oct/Nov 2007

37. According to legal aspects of leasing, a lease is considered a "deemed sale" for the purpose of levying which tax?
(A) Income Tax
(B) Customs Duty
(C) Goods and Services Tax (GST)
(D) Capital Gains Tax

Ans :

(C) Goods and Services Tax (GST)
While a lease is fundamentally a transfer of the right to use goods and not a sale under the Sale of Goods Act, it is treated as a 'deemed sale' under tax law. Specifically, for the purpose of indirect taxation, the transaction is considered a supply of services, and Goods and Services Tax (GST) is levied on the lease rentals.

May/June 2023

38. When a bank undertakes equipment leasing services departmentally, what is the regulatory requirement concerning prior approval from the RBI?
(A) Prior approval from the RBI is mandatory before commencing the activity.
(B) Prior approval is not necessary, but the bank must report the activity to the RBI.
(C) Approval is needed only if the leasing portfolio exceeds 10% of total advances.
(D) Approval is only required for leasing high-value assets to infrastructure projects.

Ans :

(B) Prior approval is not necessary, but the bank must report the activity to the RBI.
Unlike setting up a leasing subsidiary which requires prior RBI approval, banks can undertake equipment leasing services departmentally without such pre-approval. However, they are mandated to report to the RBI about the nature of these activities and specify the names of the branches from where these services are being offered, ensuring regulatory oversight of the activity.

Oct/Nov 2018

39. For the purpose of calculating capital to risk-weighted assets ratio (CRAR), what is the risk weight assigned to equipment leasing activities undertaken departmentally by a bank?
(A) 50%
(B) 75%
(C) 125%
(D) 100%

Ans :

(D) 100%
According to RBI's prudential guidelines, when banks undertake equipment leasing departmentally, these activities must be treated on par with loans and advances. Consequently, they are assigned a risk weight of 100% for the calculation of the capital to risk-weighted assets ratio. This ensures adequate capital is held against the risk exposure from leasing activities.

May/June 2012

40. What is the exposure ceiling for banks regarding equipment leasing services vis-à-vis their aggregate credit, as per RBI guidelines?
(A) The exposure should not exceed 10% of total advances.
(B) The exposure should not exceed 5% of total advances.
(C) The exposure should not exceed 15% of the bank's capital funds.
(D) There is no specific regulatory ceiling for leasing activities.

Ans :

(A) The exposure should not exceed 10% of total advances.
The RBI mandates that banks must maintain a balanced portfolio of equipment leasing services in relation to their overall credit activities. To prevent over-concentration in this specific area, the guidelines stipulate that a bank's exposure to equipment leasing activities should not exceed 10% of its total advances, ensuring prudent portfolio diversification and risk management.

Oct/Nov 2021

41. Consider the following statements regarding the regulatory aspects of departmental leasing by banks:

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(B) The lessor claims depreciation, and the lessee deducts rental payments.
The tax benefits in a lease are split between the two parties. The lessor, as the legal owner of the asset, has the right to claim depreciation on the leased asset as an expense. The lessee, who pays for the use of the asset, can treat the lease rentals as a business expense and deduct the full amount from their taxable income.

Oct/Nov 2017

23. According to Table 39.2, which asset class held the largest percentage share of the total leased assets in the year 2015?
(A) Car
(B) Computer
(C) Plant & Machinery
(D) Commercial vehicles given on operating lease

Ans :

(D) Commercial vehicles given on operating lease
As per the data provided in the table for the year 2015, 'Commercial vehicles given on operating lease' accounted for 26.16% of the total leased assets. This is the highest percentage share among all the listed asset classes for that year, surpassing Cars (20.17%), Computers (17.26%), and Plant & Machinery (9.74%) in terms of their respective shares.

May/June 2006

24. Based on the data in Table 39.2, which asset class experienced the most dramatic increase in both its absolute value (in USD million) and its percentage share between 2014 and 2015?
(A) Car
(B) Computer
(C) Commercial vehicles
(D) Plant & Machinery

Ans :

(A) Car
The data shows that the leasing of cars increased from USD 16.73 million (5.52%) in 2014 to USD 116.84 million (20.17%) in 2015. This represents a substantial growth in both the absolute financial value and the relative percentage share of the total market, making it the class with the most significant surge during that period.

Oct/Nov 2024

25. By analyzing Table 39.2, which of the following asset classes saw a significant drop in its percentage share of total leased assets from 2014 to 2015, despite a slight increase in its absolute value?
(A) Data Processing/computer software
(B) Furniture & fixtures
(C) Plant & Machinery
(D) Computer

Ans :

(C) Plant & Machinery
For 'Plant & Machinery', the absolute value increased slightly from USD 54.11 million in 2014 to USD 56.42 million in 2015. However, its percentage share of the total leased assets fell sharply from 17.85% in 2014 to just 9.74% in 2015, indicating that its growth was much slower than the overall market's growth.

May/June 2022

26. What was the approximate percentage increase in the total value of leased assets (in USD million) from 2014 to 2015, based on the totals provided in Table 39.2?
(A) 91%
(B) 45%
(C) 120%
(D) 15%

Ans :

(A) 91%
The total value of leased assets was USD 303.15 million in 2014 and increased to USD 579.26 million in 2015.
The percentage increase can be calculated as

$$\frac{579.26 - 303.15}{303.15} \times 100$$

$$= \frac{276.11}{303.15} \times 100 \approx 91.08\%.$$

This indicates a very strong growth in the overall leasing market during that year.

Oct/Nov 2015

27. Considering the data in Table 39.2 for all three years (2013, 2014, 2015), which statement is correct?
(A) The total value of leased assets decreased from 2013 to 2014.
(B) The leasing of 'Data Processing/computer software' consistently grew in percentage terms.

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(C) The absolute value (USD million) for 'Furniture & fixtures' decreased from 2013 to 2015.
(D) The leasing of 'Commercial vehicles' consistently had the highest percentage share.

Ans :

(D) The leasing of 'Commercial vehicles' consistently had the highest percentage share.
In 2013, 'Commercial vehicles' had a 21.68% share. In 2014, although 'Computer' was close, 'Commercial vehicles' led with 24.12%. In 2015, its share was 26.16%. In all three years presented in the table, this asset class maintained the highest percentage share of the total leased assets, indicating its consistent dominance in the market.

May/June 2008

28. How does acquiring an asset through a lease agreement typically affect a firm's debt-equity ratio?
(A) It increases the debt-equity ratio significantly by adding a new liability.
(B) It remains unaffected because it is an off-balance sheet item.
(C) It affects the ratio only if the agreement is a leveraged lease.
(D) It decreases the debt-equity ratio by increasing the asset base.

Ans :

(B) It remains unaffected because it is an off-balance sheet item.
When a firm acquires an asset on lease, neither the leased asset nor the liability for future lease payments is shown on the balance sheet. This is known as off-balance sheet financing. Since both the debt and equity components on the balance sheet do not change, the firm's debt-equity ratio remains unaffected by the transaction.

Oct/Nov 2023

29. After acquiring the new asset, what will be the new debt-equity ratio for Firm X?
(A) 1:1
(B) 1:2
(C) 2:1
(D) 3:1

Ans :

(C) 2:1
Initially, Firm X had Debts of Rs. 100 and Equity of Rs. 100 (Ratio 1:1). By borrowing Rs. 100, its total debts increase to Rs. 200 (100 + 100). The equity capital remains at Rs. 100.
Therefore, the new debt-equity ratio for Firm X becomes
Debts/Equity $= \frac{200}{100}$, which simplifies to 2:1.

May/June 2017

30. What will be the debt-equity ratio for Firm Y after it acquires the new asset on a lease?
(A) 2:1
(B) 1:2
(C) 0:1
(D) 1:1

Ans :

(D) 1:1
Firm Y acquires the asset on a lease, which is an off-balance sheet financing method. This means the transaction does not alter the firm's balance sheet figures. Its Debts remain at Rs. 100 and its Equity Capital remains at Rs. 100. Consequently, the debt-equity ratio for Firm Y remains unaffected at its original level of 1:1.

Oct/Nov 2005

31. Which of the following statements correctly describes the impact on the balance sheets of the two firms?
(A) The total assets of Firm X will increase to Rs. 300.
(B) The total assets of Firm Y will increase to Rs. 300.
(C) The total liabilities and equity of Firm X will remain at Rs. 200.
(D) The total liabilities and equity of both firms will increase to Rs. 300.

Ans :

(A) The total assets of Firm X will increase to Rs. 300.
Firm X borrows Rs. 100 (increasing debt) and buys a fixed asset for Rs. 100 (increasing fixed assets). Its new balance sheet will show Debts of Rs. 200 and Fixed Assets of Rs. 200. The total assets will be Rs. 300 (200 Fixed + 100 Current), and total liabilities and equity will also be Rs. 300 (200 Debt + 100 Equity).

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May/June 2020

32. Based on the outcome, what is the primary advantage for Firm Y in choosing to lease the asset?
(A) It can claim higher depreciation on the asset than Firm X.
(B) It maintains its borrowing capacity for future needs.
(C) It adversely affects its ability to take on future debt obligations.
(D) It gains immediate legal ownership of the asset without payment.

Ans :

(B) It maintains its borrowing capacity for future needs.
By keeping the debt-equity ratio at 1:1, Firm Y preserves its financial structure. A lower debt-equity ratio is viewed more favorably by lenders, meaning Firm Y can more easily take on further debt in the future to acquire other assets or meet its working capital needs, an advantage Firm X with its higher 2:1 ratio would not have.

Oct/Nov 2013

33. A company wants to acquire new machinery but is concerned that a higher debt-equity ratio might violate its existing loan covenants. Which financing method would be the most prudent choice?
(A) Funding the purchase by issuing new equity shares to investors.
(B) Acquiring the machinery on a lease basis.
(C) Securing a new long-term loan from a financial institution.
(D) Financing the purchase using short-term commercial paper.

Ans :

(B) Acquiring the machinery on a lease basis.
Acquiring the machinery on a lease is the most prudent choice as it is a form of off-balance sheet financing. This method allows the company to use the asset without recording a corresponding liability on its balance sheet. Consequently, the debt-equity ratio would remain unaffected, preventing a potential breach of its existing loan covenants.

May/June 2014

34. Under which Indian law is a lease transaction, being akin to a contract of bailment, primarily governed, in the absence of a separate specific statute for leasing?
(A) The Indian Contract Act, 1872
(B) The Sale of Goods Act, 1930
(C) The Transfer of Property Act, 1882
(D) The Companies Act, 2013

Ans :

(A) The Indian Contract Act, 1872
As there is no separate, dedicated statute in India to govern leasing contracts, they are treated as being akin to a contract of bailment. Therefore, the provisions of the Indian Contract Act, 1872, particularly those relating to bailment where goods are delivered for a purpose, are applied to govern the rights and obligations of the lessor and lessee.

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Oct/Nov 2010

35. As per Section 146 of the Indian Contract Act, 1872, the party delivering the goods in a contract of bailment is called the ____, and the party to whom they are delivered is called the ____.
(A) lessor; lessee
(B) offeror; offeree
(C) bailor; bailee
(D) consignor; consignee

Ans :

(C) bailor; bailee
Section 146 of the Indian Contract Act, 1872, defines bailment and its parties. The person who delivers the goods is known as the 'bailor', and the person to whom the goods are delivered is called the 'bailee'. In the context of a lease, the lessor assumes the role of the bailor and the lessee assumes the role of the bailee.

May/June 2009

36. Which of the following is NOT a duty of the lessor in a lease agreement?
(A) To deliver the asset to the lessee.
(B) To legally authorise the lessee to use the asset.
(C) To leave the asset in peaceful possession of the lessee.
(D) To pay the lease rentals as specified in the agreement.

Ans :

(D) To pay the lease rentals as specified in the agreement.

(C) A third-party financial institution that funds the purchase.
(D) The lessee and lessor jointly purchase the asset from the supplier.

Ans :

(A) The lessor, who procures the asset for the lessee.
A direct lease is the most straightforward type of finance lease. In this model, the lessor firm itself purchases the asset and then hands it over to the lessee under the lease agreement. While the lessee may specify the manufacturer and model, the procurement and payment to the supplier are handled directly by the lessor.

Oct/Nov 2019

19. Which of the following is considered a primary advantage of lease finance from the perspective of the lessor?
(A) The ability to use the asset without having to invest in its purchase.
(B) The tax deduction of lease rentals paid from their taxable income.
(C) The receipt of an assured and regular rental income.
(D) The conservation of capital for core business expansion activities.

Ans :

(C) The receipt of an assured and regular rental income.
For the lessor (the asset owner), a key advantage of leasing is the creation of a steady and predictable income stream. They receive assured rental income during the lease period without transferring the ownership of the asset. This provides a consistent return on their investment, which is often higher than the interest on financing the asset.

May/June 2025

20. How does lease financing offer a tax benefit to the lessee?
(A) The lessee can claim depreciation on the leased asset, reducing taxable profit.
(B) The lessee receives a direct tax credit equivalent to the full value of the asset.
(C) The lessee is exempt from paying Goods and Services Tax (GST) on lease rentals.
(D) The lease rental paid is deductible from the lessee's taxable income.

Ans :

(D) The lease rental paid is deductible from the lessee's taxable income.
A significant tax advantage for the lessee in a lease agreement is that the lease rentals are treated as an operating expense. As a result, the entire amount of the lease rental paid during a financial year can be deducted from the lessee's gross income before calculating the taxable income, thereby reducing their overall tax liability.

Oct/Nov 2008

21. From the perspective of a new entrepreneur, what is a major advantage of using lease finance for acquiring assets?
(A) It ensures immediate profitability by completely eliminating all initial asset acquisition costs.
(B) It triggers an immediate and substantial tax refund from government revenue authorities.
(C) It allows for business growth without a large initial capital outlay.
(D) It simplifies asset management by transferring all risks of obsolescence to the entrepreneur.

Ans :

(C) It allows for business growth without a large initial capital outlay.
For an entrepreneur, especially in the early stages of a business, leasing is advantageous because it conserves capital. Instead of spending a large amount of money to acquire an asset, the entrepreneur can use it by paying smaller, periodic rentals. The funds saved can then be utilized for other critical areas like working capital or business expansion.

May/June 2011

22. Which of the following statements correctly identifies the tax benefits for the parties in a lease agreement?
(A) The lessee claims depreciation, and the lessor deducts rental payments.
(B) The lessor claims depreciation, and the lessee deducts rental payments.
(C) Both the lessor and the lessee can claim depreciation on the asset.
(D) Both the lessor and the lessee can deduct rental payments from their income.

Ans :

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I. Full depreciation must be provided for during the primary lease period.
II. Banks are not required to frame a policy on leasing business.
III. Extant guidelines on income recognition and asset classification do not apply.

Which of the statements is/are correct?
(A) I only
(B) I and II only
(C) II and III only
(D) All I, II, and III

Ans :

(A) I only
According to RBI guidelines, banks must provide for full depreciation of the leased asset during the primary lease period. The other statements are incorrect. Banks are explicitly required to frame an appropriate policy on leasing with their Board's approval, and the existing prudential norms on income recognition, asset classification, and provisioning are fully applicable to leasing activities.

May/June 2016

42. In a hire purchase agreement, when is the ownership of the asset transferred to the hirer?
(A) Only upon payment of the final instalment.
(B) Immediately upon signing the contract and taking possession.
(C) After payment of the initial cash down payment.
(D) After payment of 50% of the total instalments due.

Ans :

(A) Only upon payment of the final instalment.
A fundamental feature of a hire purchase agreement is the delayed transfer of ownership. The user (hirer) gets possession and use of the asset from the beginning, but the legal ownership remains with the seller (hiree). The ownership title is passed on to the hirer only after the right of purchase is exercised, which happens upon the successful payment of the very last instalment.

Oct/Nov 2012

43. What right does a hirer have if they decide they no longer want the asset during a hire purchase agreement?
(A) They can sell the asset to a third party to recover their paid instalments.
(B) They must continue paying all remaining instalments until the end of the term.
(C) They can sublet the asset to another user to cover the instalment costs.
(D) They can return the asset to the hiree without any commitment to pay the remaining instalments.

Ans :

(D) They can return the asset to the hiree without any commitment to pay the remaining instalments.
A hire purchase contract provides flexibility to the hirer. If the hirer chooses to, they have the right to terminate the contract by returning the asset to the hiree (the owner). Upon returning the asset, the hirer is relieved from the obligation of paying any of the future instalments that were due under the original agreement.

May/June 2005

44. In a typical hire purchase transaction, what is the customary range for the cash down payment required from the hirer?
(A) 5%-10% of the asset's cost
(B) 20%-25% of the asset's cost
(C) 50% of the asset's cost
(D) No down payment is required.

Ans :

(B) 20%-25% of the asset's cost
The process of a hire purchase transaction usually begins with the hirer making an initial cash down payment. This payment is typically in the range of 20% to 25% of the total cost of the asset. The remaining balance of the cost price, along with the applicable interest, is then converted into equated monthly instalments (EMIs) for repayment.

Oct/Nov 2020

45. The development of hire purchase in India initially took which two primary forms?
(A) Industrial machinery and agricultural equipment
(B) Real estate and infrastructure projects
(C) Consumer durables and automobiles
(D) Information technology and office equipment

Ans :

(C) Consumer durables and automobiles
The evolution of hire purchase in India developed along two main lines. The first was for consumer durables, often promoted directly by dealers like

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Singer sewing machine or Murphy radio dealers. The second, which grew very rapidly, was the hire purchase of automobiles, especially commercial vehicles, which was a flourishing branch of financing activity.

May/June 2018

46. What is the primary Indian statute that controls hire purchase finance organizations?
(A) The Indian Contract Act, 1872
(B) The Sale of Goods Act, 1930
(C) The Banking Regulation Act, 1949
(D) The Hire Purchase Act, 1972

Ans :

(D) The Hire Purchase Act, 1972
While a hire purchase agreement has elements of bailment (governed by the Indian Contract Act) and sale (related to the Sale of Goods Act), the specific transactions and organizations involved in hire purchase finance are controlled by a dedicated statute. This special legislation is the Hire Purchase Act of 1972, which was enacted to regulate these transactions.

Oct/Nov 2009

47. A hire purchase transaction has two basic elements, bailment and sale. Which Act governs the 'bailment' aspect of the agreement?
(A) Chapter IX of the Indian Contract Act, 1872
(B) The Sale of Goods Act, 1930
(C) The Hire Purchase Act, 1972
(D) The Transfer of Property Act, 1882

Ans :

(A) Chapter IX of the Indian Contract Act, 1872
A hire purchase agreement is considered a contract of bailment because the hirer has possession but not ownership. This bailment aspect, which covers agreements for financing consumer durables like motor vehicles and appliances, is governed by the provisions laid out in Chapter IX of the Indian Contract Act, 1872, which deals specifically with contracts of bailment.

May/June 2024

48. In a hire purchase agreement, who are the two principal parties to the contract?
(A) The manufacturer and the hirer
(B) The hire-purchaser (hirer) and the hire-vendor (hiree)
(C) The seller and the bailor
(D) The hirer and the bank

Ans :

(B) The hire-purchaser (hirer) and the hire-vendor (hiree)
A hire purchase agreement is fundamentally a contract between two parties. The first is the hire-purchaser, also known as the 'hirer', who is the user of the goods. The second is the hire-vendor, also known as the 'hiree' or 'owner', who provides the goods on hire with an option to purchase at the end of the term.

NODIA

Oct/Nov 2016

49. Which of the following is a duty of the hire-vendor (owner) in a hire purchase contract?
(A) To pay all the required instalments on time.
(B) To ensure the goods are of merchantable quality and free from encumbrances.
(C) To take care of the property with due diligence.
(D) To redeliver the goods to the owner if the agreement ceases to be valid.

Ans :

(B) To ensure the goods are of merchantable quality and free from encumbrances.
The hire-vendor, as the owner providing the goods, has several duties. These include ensuring the goods are of merchantable quality, fit for their intended purpose, and free from any prior claims or encumbrances. The other options listed are duties of the hirer (the user of the goods), not the hire-vendor who is the owner.

May/June 2007

50. Which of the following actions by a hirer would be inconsistent with their duties in a hire purchase agreement?
(A) Disposing of the goods by selling them to a third party before the final payment.
(B) Using the property with the same level of due care as if it were their own.
(C) Paying the instalments on or before the date they fall due as per the contract.
(D) Being present at the agreed location to accept the delivery of goods from the owner.

Ans :

(A) Disposing of the goods by selling them to a third party before the final payment.
The hirer has the right to use the goods but does not have ownership title until the final

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instalment is paid. Therefore, the hirer has a duty not to indulge in any act inconsistent with the owner's rights, which includes selling, pledging, or otherwise disposing of the goods. Such an act would be a breach of the hire purchase contract.

Oct/Nov 2025

51. A key difference between a lease and a hire purchase regarding depreciation?

(A) In a lease, the lessee claims depreciation; in a hire purchase, the hiree (owner) claims it.
(B) In both cases, only the legal owner of the asset can claim depreciation for tax purposes.
(C) In a lease, the lessor claims depreciation; in a hire purchase, the hirer can claim it.
(D) No depreciation can be claimed in either a lease or a hire purchase arrangement.

Ans :

(C) In a lease, the lessor claims depreciation; in a hire purchase, the hirer can claim it.
In a lease, the lessor remains the legal owner and is therefore entitled to claim depreciation on the asset. In a hire purchase, although ownership transfers at the end, the hirer is considered the owner for tax purposes from the beginning and is allowed to charge depreciation on the asset used in their business.

May/June 2013

52. How does the treatment of payments differ for tax purposes between a lease and a hire purchase from the user's perspective?

(A) In a lease, only the interest is deductible; in hire purchase, the full instalment is deductible.
(B) In both cases, the entire payment (rental or instalment) is a fully deductible business expense.
(C) No part of the payment is deductible as a revenue expenditure in either leasing or hire purchase.
(D) In a lease, the entire rental is deductible; in hire purchase, only the interest component is deductible.

Ans :

(D) In a lease, the entire rental is deductible; in hire purchase, only the interest component is deductible.
From the user's viewpoint, there is a significant tax difference. A lessee can claim the entire lease rental as a revenue expenditure, which is fully deductible from taxable income. A hire-purchaser, however, can only claim the interest element included in the hire purchase instalments as a revenue expenditure, not the principal repayment portion of the instalment.

Oct/Nov 2011

53. Which statement accurately compares the initial payment requirement for leasing versus hire purchase?

(A) Both leasing and hire purchase generally require a significant down payment from the user.
(B) Hire purchase is typically for the full value, while leasing requires a substantial down payment.
(C) Leasing is for the full value of the equipment, while hire purchase generally requires a cash down payment.
(D) Neither leasing nor hire purchase typically involves any initial payment from the user of the asset.

Ans :

(C) Leasing is for the full value of the equipment, while hire purchase generally requires a cash down payment.
A major financial distinction is the upfront cash outflow. A lease agreement typically finances 100% of the asset's cost, meaning no down payment is required from the lessee. In contrast, a hire purchase transaction almost always requires the hirer to make a substantial initial cash down payment, with the rest of the cost being financed.

May/June 2021

54. Match List-I with List-II regarding the characteristics of lease and hire purchase.

	List-I (Concept)		**List-II (Characteristic)**
P.	Finance Lease	1.	Short duration, lessor bears maintenance cost
Q.	Operating Lease	2.	User (hirer) can claim depreciation
R.	Hire Purchase	3.	Long duration, lessee bears maintenance cost
S.	Sale and Lease-back	4.	Owner sells asset and leases it back

(A) P-3, Q-1, R-2, S-4

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technology.

Ans :

(A) Good asset value and easy repossession.
The hire purchase of commercial vehicles developed very fast as a financing activity. This was primarily because these assets (like trucks and buses) retained good resale value, making them a secure underlying asset for the financier. Additionally, the process of repossessing the vehicle in case of a default on payments was comparatively easy, reducing the lender's risk.

May/June 2011

64. In the comparison between leasing and hire purchase, which statement is true regarding maintenance liability?
(A) In all types of lease agreements, the lessor is always liable for asset maintenance.
(B) In an operating lease, the lessor bears maintenance cost, while in hire purchase, the hirer is liable.
(C) In both leasing and hire purchase, the user of the asset is always liable for maintenance.
(D) In a hire purchase agreement, the hiree (owner) is always liable for asset maintenance.

Ans :

(B) In an operating lease, the lessor bears maintenance cost, while in hire purchase, the hirer is liable.
Maintenance liability differs significantly. In a hire purchase agreement, the hirer (user) is responsible for maintaining the asset. In leasing, it depends on the type; for a finance lease, the lessee is typically responsible, but for an operating lease, the lessor is explicitly required to bear the maintenance costs as part of the service provided.

Oct/Nov 2017

65. Consider the following three statements regarding lease finance:
I. The lessor recovers the full cost of the asset and interest in an operating lease.
II. A finance lease is typically non-cancellable.
III. The lessee's position in a finance lease is quite similar to that of an owner.
Which of the above statements is/are correct?
(A) I only
(B) II and III only
(C) I and III only
(D) All I, II, and III

Ans :

(B) II and III only
Statement I is incorrect; the lessor recovers cost from multiple lessees in an operating lease, not a single one. Statement II is correct as finance leases are long-term, non-cancellable commitments. Statement III is also correct because the long term and the responsibility for maintenance make the lessee's position in a finance lease very similar to an owner's.

May/June 2006

66. A firm requires a specialized machine for a single, 2-year project. The machine has an economic life of 15 years. Which financing option would be most appropriate for this firm?
(A) Operating Lease
(B) Finance Lease
(C) Hire Purchase
(D) Direct Purchase with a bank loan

Ans :

(A) Operating Lease
An operating lease is ideal for this scenario. The lease period required (2 years) is very short compared to the asset's economic life (15 years), which is a defining feature of an operating lease. This allows the firm to use the asset only for the project duration without committing to its full cost or ownership, making it highly economical.

Oct/Nov 2024

67. Which of the following four statements regarding lease and hire purchase is correct?
1. In hire purchase, the user can claim depreciation.
2. In a finance lease, the lessor can claim depreciation.
3. In an operating lease, the lessee can claim depreciation.
4. In hire purchase, the entire instalment is a tax-deductible expense for the hirer.
(A) Statements 1 and 2 are correct.
(B) Statements 2 and 3 are correct.
(C) Statements 1 and 4 are correct.
(D) Statements 3 and 4 are correct.

Ans :

(A) Statements 1 and 2 are correct.
Statement 1 is correct as the hirer is treated as the owner for tax purposes. Statement 2 is correct as the lessor is the legal owner in a lease. Statement

NODIA

The formal beginning of leasing in India is dated to 1973 with the setup of the First Leasing Company of India Ltd. Hire purchase is a much older concept in India, with companies being established in the 1920s and 1930s. ICICI entered the leasing market in 1983, a decade after the first leasing company was established.

Oct/Nov 2006

59. Which of the following is NOT a characteristic of a leveraged lease?
(A) The lessor acts as an equity participant, supplying only part of the asset's cost.
(B) The lessor borrows a portion of the purchase price from a third-party lender.
(C) The loan is secured by the assets and the assignment of lease rentals.
(D) It is typically used for low-cost, short-life assets like office furniture.

Ans :

(D) It is typically used for low-cost, short-life assets like office furniture.
A leveraged lease is a complex financing structure specifically designed for high-value assets. It is generally adopted for costly assets like aircraft, ships, or large industrial plants. The involvement of a third-party lender and the complex security structure are not practical or necessary for low-cost assets, which are typically financed through simpler lease or purchase arrangements.

May/June 2010

60. From a bank's regulatory perspective, what is the single borrower exposure limit for facilities extended by way of equipment leasing?
(A) 10% of the bank's capital funds.
(B) 15% of the bank's capital funds.
(C) 25% of the bank's capital funds.
(D) 40% of the bank's capital funds.

Ans :

(B) 15% of the bank's capital funds.
As per RBI's prudential norms, facilities extended through equipment leasing are included within the overall exposure ceilings. The limit for a single borrower is 15% of the bank's capital funds. This can be extended to 20% if the additional credit exposure is for infrastructure projects, ensuring that a bank does not have excessive credit concentration with a single entity.

Oct/Nov 2019

61. For a bank undertaking departmental leasing, RBI guidelines require full depreciation on the asset to be provided during which period?
(A) The first year of the lease agreement.
(B) The entire economic life of the asset.
(C) The primary lease period.
(D) A fixed period of 5 years, irrespective of the lease term.

Ans :

(C) The primary lease period.
To ensure sound accounting and risk management, the RBI mandates that banks engaging in departmental leasing must provide for the full depreciation of the leased asset. This depreciation must be fully charged within the duration of the primary lease period of the asset, rather than being spread over its entire economic life, which could be much longer.

May/June 2025

62. Which of the following statements about a hire purchase transaction is incorrect?
(A) The hirer is required to make a cash down payment of 20%-25%.
(B) The balance cost is payable in EMIs over a period of 36 to 48 months.
(C) The hirer is entitled to terminate the contract by giving due notice.
(D) The ownership of the asset is transferred to the hirer upon making the down payment.

Ans :

(D) The ownership of the asset is transferred to the hirer upon making the down payment.
This statement is incorrect. In a hire purchase agreement, ownership remains vested in the seller (hiree) until the hirer has paid all the instalments. The down payment only initiates the contract and grants the hirer the right to possess and use the asset. The title of ownership is transferred only after the very last instalment is paid.

Oct/Nov 2008

63. The rapid growth of hire purchase for commercial vehicles in India was attributed to which two factors?
(A) Good asset value and easy repossession.
(B) Low asset value and difficult repossession.
(C) Government subsidies and tax exemptions.
(D) Foreign collaboration and advanced

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(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-4, R-3, S-1

Ans :

(A) P-3, Q-1, R-2, S-4
A Finance Lease (P) is long-term with the lessee responsible for maintenance (3). An Operating Lease (Q) is short-term with the lessor handling maintenance (1). In a Hire Purchase (R), the hirer can claim depreciation (2). A Sale and Lease-back (S) involves an entity selling an asset it owns and immediately leasing it back (4).

Oct/Nov 2014

55. Consider the following statements:
Statement 1: In a lease transaction, ownership of the asset always remains vested in the lessor.
Statement 2: In a hire purchase transaction, ownership of the asset passes to the hirer after payment of all instalments.
(A) Statement 1 is correct, and Statement 2 is incorrect.
(B) Statement 1 is incorrect, and Statement 2 is correct.
(C) Both Statement 1 and Statement 2 are correct.
(D) Both Statement 1 and Statement 2 are incorrect.

Ans :

(C) Both Statement 1 and Statement 2 are correct.
Both statements accurately describe the fundamental nature of ownership in these two financing methods. In any lease, ownership is a right retained by the lessor throughout the contract term. In contrast, the ultimate goal of a hire purchase agreement is the transfer of ownership, which is executed once the hirer successfully completes all instalment payments as per the contract.

May/June 2019

56. Which of the following is an incorrect pairing of a lease type and its description?
(A) Close-ended Lease - Lessee has the option of purchasing the asset at the end.
(B) Percentage Lease - Lessee pays fixed rentals plus a percentage of gross revenue.
(C) Up-front Lease - Lease rentals are higher in the initial years of the contract.
(D) Cross-border Lease - Lessor and lessee are situated in different countries.

Ans :

(A) Close-ended Lease - Lessee has the option of purchasing the asset at the end.
This pairing is incorrect. In a close-ended lease, the asset is simply transferred back to the lessor at the end of the lease-contract period. It is the open-ended lease that provides the lessee with the option of purchasing the asset. All other pairings correctly describe their respective lease types as per the standard definitions in finance.

Oct/Nov 2022

57. Assertion (A): Acquiring an asset on a lease is often referred to as off-balance sheet financing.
Reason (R): The leased asset and the corresponding lease liability are not recorded on the lessee's balance sheet.
(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
Assertion (A) is a common description of leasing. Reason (R) provides the precise accounting justification for this description. Because the lessee does not record the asset or the long-term obligation to make lease payments on its balance sheet, the financing is effectively kept 'off' the main financial statement, which directly explains why it is called off-balance sheet financing.

May/June 2015

58. Identify the correct statement regarding the evolution of leasing and hire purchase in India.
(A) Leasing activity in India was initiated in 1973 with the First Leasing Company of India Ltd.
(B) Hire purchase is a recent concept, introduced after the 1991 economic liberalization.
(C) The first hire purchase company in India was established in the 1970s, concurrent with leasing.
(D) ICICI was the first entity to start leasing in India, entering the market in 1983.

Ans :

(A) Leasing activity in India was initiated in 1973 with the First Leasing Company of India Ltd.

NODIA

3 is incorrect; the lessor claims depreciation in an operating lease. Statement 4 is incorrect; only the interest component of the instalment is deductible, not the principal portion.

May/June 2022

68. As per the duties of a hirer, what is the consequence if the hirer fails to be present to accept the delivery of goods?

(A) The contract is automatically terminated without any penalty.
(B) The hire-vendor must attempt redelivery at least three times.
(C) The hirer's initial down payment is forfeited, but there are no further liabilities.
(D) The hirer can be sued for non-acceptance of the goods.

Ans :

(D) The hirer can be sued for non-acceptance of the goods.
It is the hirer's duty to be present to receive or accept the goods delivered by the owner as per the agreement. If the hirer fails to do so, it constitutes a breach of their contractual duty. This failure to accept the goods can lead to legal action, where the hire-vendor can sue the hirer for non-acceptance.

Oct/Nov 2015

69. When a bank forms a subsidiary for equipment leasing, what is the primary restriction on the subsidiary's activities?

(A) It is prohibited from leasing assets valued above a fixed monetary limit, such as Rs. 1 crore.
(B) It is limited to offering only specific lease types, like operating leases, while being barred from finance leases.
(C) It is restricted to leasing and incidental activities, excluding direct lending.
(D) It is required to be structured exclusively as a wholly-owned subsidiary of its parent bank.

Ans :

(C) It is restricted to leasing and incidental activities, excluding direct lending.
RBI guidelines stipulate that a banking subsidiary formed for leasing must focus its operations. It should be primarily engaged in equipment leasing and other activities that are incidental to leasing. The subsidiary is restricted from engaging in activities like direct lending or financing other non-leasing companies, ensuring its specialization in the leasing business as intended.

May/June 2008

70. What distinguishes a 'sale' under the Sale of Goods Act from a 'lease' transaction?

(A) A sale exclusively involves tangible goods, while a lease can involve intangible services.
(B) A sale is a transfer of property in goods, while a lease is a transfer of the right to use goods.
(C) A sale requires a single lump-sum payment, while a lease involves periodic instalments.
(D) A sale is governed by the Contract Act, while a lease is governed by the Transfer of Property Act.

Ans :

(B) A sale is a transfer of property in goods, while a lease is a transfer of the right to use goods.
The core legal distinction lies in what is being transferred. A 'sale' involves the transfer of ownership or property in the goods from the seller to the buyer. A 'lease', on the other hand, is merely a transfer of the right to use the goods for a specific period, with the ownership or property remaining with the lessor.

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May/June 2025

8. Which of the following financial instruments would NOT typically be rated by a Credit Rating Agency?
(A) Individual consumer loans and personal credit card debt.
(B) Corporate Bonds and Commercial Paper.
(C) Municipal Bonds and Preferred Stock.
(D) Mortgage-backed securities and collateralised debt obligations.

Ans :

(A) Individual consumer loans and personal credit card debt.
CRAs rate the creditworthiness of issuers of debt obligations and specific debt instruments, but not typically that of individual consumers. Their scope includes instruments like corporate bonds, Certificates of Deposits (CDs), Commercial Paper (CPs), debentures, and various structured finance products. The creditworthiness of individual consumers is assessed through credit scoring, not rating.

Oct/Nov 2011

9. The modern credit rating system is considered to have originated in 1909 with which specific event?
(A) Standard & Poor's rated the first sovereign nation, France.
(B) Fitch Ratings was established in New York.
(C) John Moody began rating US railroad bonds.
(D) The first corporate bonds were issued in Europe.

Ans :

(C) John Moody began rating US railroad bonds.
The inception of the modern credit rating system is traced back to the year 1909. It was during this time that John Moody took the pioneering step of starting to rate bonds issued by US railroad companies. This initiative laid the groundwork for the development of the formal credit rating industry that exists today.

May/June 2017

10. Which organization initiated the concept of credit rating in India and when was it established?
(A) CRISIL, established in 1987.
(B) ICRA, established in 1991.
(C) CARE, established in 1993.
(D) SEBI, established in 1992.

Ans :

(A) CRISIL, established in 1987.
The Credit Rating Information Services of India Limited (CRISIL) was the pioneer of the credit rating concept in India. The agency was established in the year 1987, although it commenced its operations in January 1988. CRISIL played a foundational role in developing the credit rating market within the Indian financial system.

Oct/Nov 2020

11. Which of the following correctly pairs an Indian rating agency with its international tie-up or alliance?
(A) CRISIL with Moody's.
(B) ICRA with Fitch.
(C) CARE with Standard & Poor's.
(D) ICRA with Moody's.

Ans :

(D) ICRA with Moody's.
Several Indian credit rating agencies have established tie-ups or alliances with major international rating agencies to leverage global expertise and standards. Among the notable collaborations, ICRA has a tie-up with Moody's Investors Service, CRISIL is associated with S&P Global Ratings, and CARE has an alliance with Fitch Ratings.

NODIA

May/June 2006

12. Which of the following is NOT a characteristic of credit rating?
(A) It is an evaluation of an issuer's financial capacity to repay its debt obligations.
(B) It is an explicit recommendation to buy, sell, or hold a particular financial instrument.
(C) It is communicated using simple symbols like 'AAA' for easy comprehension.
(D) It is conducted by expert analysts from accredited and reputable institutions.

Ans :

(B) It is an explicit recommendation to buy, sell, or hold a particular financial instrument.
A key characteristic of credit rating is that it serves as guidance for investors, not a recommendation. While it assesses repayment capacity and is performed by experts using standardized symbols, a rating is merely an opinion on credit

(B) As a specific percentage score from 0% to 100% that quantifies the exact probability of default.
(C) As a binary pass/fail judgment based exclusively on the company's most recent solvency figures.
(D) As a symbolic alpha/numeric grade, such as 'AAA' or 'BB+', which is accompanied by a detailed analytical report on the issuer.

Ans :

(D) As a symbolic alpha/numeric grade, such as 'AAA' or 'BB+', which is accompanied by a detailed analytical report on the issuer.
A credit rating is usually expressed as an alpha/numeric grade, such as 'AAA' or 'BB+'. This symbolic representation is supplemented by a detailed report that analyzes the entity's financial history, borrowing patterns, and overall creditworthiness. This format helps in assessing the entity's ability to meet its debt obligations and its general solvency.

Oct/Nov 2023

5. According to its definition, a credit rating is an opinion of a Credit Rating Agency (CRA) regarding an issuer's capacity to meet which of the following?
(A) Its profit targets for the upcoming fiscal year.
(B) Its corporate social responsibility commitments.
(C) Its financial obligations to depositors or bondholders in a timely manner.
(D) Its projected growth and market expansion plans.

Ans :

(C) Its financial obligations to depositors or bondholders in a timely manner.
A credit rating specifically represents a CRA's opinion on the issuer's ability and willingness to meet its financial obligations, which include the timely repayment of both interest and principal to its lenders (depositors or bondholders). It measures the relative risk of default on a particular debt instrument over its specified duration, not its profitability or social commitments.

May/June 2008

6. What does a poor credit rating generally suggest about a borrower?
(A) The borrower is identified as having exceptionally strong potential for future growth and high profitability.
(B) The borrower has a history of repayment difficulties, suggesting a higher risk of future default.
(C) The borrower is confirmed to operate within a highly regulated and economically stable industry sector.
(D) The borrower has no prior borrowing history, which automatically qualifies it as a low-risk entity.

Ans :

(B) The borrower has a history of repayment difficulties, suggesting a higher risk of future default.
A poor credit rating indicates that, based on historical financial data and repayment behavior, the borrower has faced challenges in meeting its debt obligations. This past performance suggests a higher likelihood that the borrower might follow a similar pattern in the future, posing a greater risk of default for potential lenders or investors.

NODIA

Oct/Nov 2019

7. What is the primary function of a Credit Rating Agency (CRA)?
(A) To function as a primary lender, providing direct loans to large-scale corporate and sovereign borrowers.
(B) To act as a market regulator, overseeing the issuance of new securities on the stock exchange.
(C) To offer personalized financial advisory services to individual consumers for their investment portfolios.
(D) To assess and rank the creditworthiness of large-scale borrowers, such as companies and countries.

Ans :

(D) To assess and rank the creditworthiness of large-scale borrowers, such as companies and countries.
A Credit Rating Agency is a private company that specializes in evaluating the creditworthiness of large-scale borrowers, which can include corporations and even sovereign nations. Its core function is to assign credit ratings that reflect the borrower's ability to repay debt, focusing on the likelihood of timely interest and principal payments and the risk of default.

CHAPTER 40

Credit Rating and Credit Scoring

Oct/Nov 2014

1. What is the primary objective of credit rating and credit scoring as tools in the financial system?

(A) To provide a government-backed guarantee on financial instruments and individual consumer loans.

(B) To facilitate easy credit availability and provide an objective assessment of credit risk.

(C) To recommend specific, high-yield investment opportunities to investors and commercial lenders.

(D) To directly set the interest rates for all debt instruments issued by corporations and governments.

Ans :

(B) To facilitate easy credit availability and provide an objective assessment of credit risk.

The main purpose of credit rating and credit scoring is twofold: they help borrowers obtain credit more easily, and they offer investors and lenders an objective measure of the credit risk associated with a financial instrument or an individual. This assessment aids in making informed financial decisions, rather than providing recommendations or setting interest rates directly.

May/June 2021

2. In the context of modern finance, why is credit rating considered an essential tool for investors?

(A) Because many investors lack the specialized expertise needed to independently assess the complex risks of financial instruments.

(B) Because it functions as a legal guarantee, similar to insurance, that legally obligates the rated entity to repay its debt under all circumstances.

(C) Because it offers a guaranteed, fixed rate of return on an investment, thereby completely removing all risks associated with market volatility.

(D) Because it is a complimentary public service offered by a government agency to all citizens and resident investors for their personal financial planning.

Ans :

(A) Because many investors lack the specialized expertise needed to independently assess the complex risks of financial instruments.

Companies issue a wide array of instruments to raise capital, and the associated risks can be complex. Credit rating serves as an objective tool for investors who may not have the necessary expertise, time, or resources to conduct a thorough risk assessment on their own, thereby helping them make a fair estimate of the risks involved.

Oct/Nov 2005

3. What is the fundamental difference in the application of credit rating versus credit scoring?

(A) Credit rating is for individuals, while credit scoring is for business entities.

(B) Credit rating is for government debt, while credit scoring is for corporate debt.

(C) Credit rating is for business entities, while credit scoring is for individuals.

(D) Credit rating is for short-term loans, while credit scoring is for long-term loans.

Ans :

(C) Credit rating is for business entities, while credit scoring is for individuals.

Credit rating is a mechanism designed to assess the risk of default associated with business entities, such as corporations or even countries, and their financial instruments. In contrast, credit scoring is used specifically to assess the credit risk attached to individual borrowers, helping lenders evaluate their likelihood of repaying personal loans, mortgages, or credit card debt.

May/June 2013

4. How is a credit rating typically presented?

(A) As a comprehensive legal document detailing the issuer's contractual obligations to all its stakeholders.

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risk. It does not explicitly advise an investor to buy, sell, or hold a specific financial instrument.

Oct/Nov 2012

13. Identify the characteristic of credit rating that involves evaluating an issuer's ability to pay interest and repay principal as per a decided schedule.

(A) Based on data.
(B) Expressed in symbols.
(C) Assessment of issuer's capacity to repay.
(D) Guidance about investment not recommendation.

Ans :

(C) Assessment of issuer's capacity to repay.
A fundamental characteristic of credit rating is the detailed assessment of an issuer's capacity to meet its financial obligations. This involves a thorough analysis of its ability to service its debt, which includes making timely interest payments and repaying the principal amount borrowed according to the pre-agreed repayment schedule, thus indicating its financial strength.

May/June 2022

14. How does credit rating provide information to the public at a low or nominal cost?

(A) The government provides direct financial subsidies to cover the full cost of the rating process.
(B) Rated companies must legally provide free, detailed reports to any individual upon request.
(C) CRAs are structured as non-profit organizations that do not charge for their rating services.
(D) Ratings are published in public media, making them widely and cheaply accessible to investors.

Ans :

(D) Ratings are published in public media, making them widely and cheaply accessible to investors.
Credit ratings are made available to the public at little to no cost because they are widely disseminated through public channels. They are published in financial newspapers and included in the advertisements of the rated companies. This public disclosure means individual investors do not have to bear the significant expense of gathering and analyzing such information themselves.

Oct/Nov 2016

15. Which of the following is considered a primary benefit of credit rating for an investor?

(A) It provides a professional and low-cost assessment of the risk involved in an investment.
(B) It guarantees the principal amount invested in a rated instrument.
(C) It allows the investor to participate in the management of the rated company.
(D) It ensures that the rated instrument will yield higher returns than unrated ones.

Ans :

(A) It provides a professional and low-cost assessment of the risk involved in an investment.
For an individual investor lacking the resources for detailed risk evaluation, credit ratings offer a significant benefit. They provide a risk assessment conducted by experts with access to extensive information. The symbolic representation (e.g., 'AAA', 'BB') is easy to understand, and the information is available at a nominal cost, enabling prudent investment decisions.

NODIA

May/June 2014

16. How does credit rating provide an "Advantage of continuous monitoring" to investors?

(A) CRAs are obligated to send daily email updates and performance reports to all security holders.
(B) CRAs continuously monitor rated securities, adjusting ratings based on new information or events.
(C) Investors have the right to call the CRA at any time for a real-time update on a company's health.
(D) The initial rating assigned to a security is guaranteed to be permanent, providing long-term stability.

Ans :

(B) CRAs continuously monitor rated securities, adjusting ratings based on new information or events.
The benefit of continuous monitoring stems from the fact that CRAs do not just assign a rating once. They actively review the financial health and circumstances of the issuer throughout the life of the instrument. This ongoing surveillance can

credit bureau, which deals with credit information and scores for individuals and businesses, not a CRA that assigns ratings to debt instruments.

May/June 2018

26. For what purpose have the seven SEBI-approved CRAs also been accredited by the RBI?
(A) For the purpose of risk weighting banks' claims for capital adequacy purposes.
(B) For setting the benchmark prime lending rate.
(C) For conducting audits of commercial banks.
(D) For managing the currency chests of public sector banks.

Ans :

(A) For the purpose of risk weighting banks' claims for capital adequacy purposes.
In addition to being approved by SEBI, these seven Credit Rating Agencies have also received accreditation from the Reserve Bank of India (RBI). This accreditation is specifically for the purpose of using their ratings to determine the risk weights of banks' claims (loans and investments) when calculating capital adequacy ratios under Basel norms.

Oct/Nov 2007

27. In the context of credit rating symbols for long-tenor instruments, what does a 'AAA' rating denote?
(A) A moderate degree of safety, with some speculative elements present in the instrument.
(B) An adequate degree of safety, though adverse changes could impact the instrument.
(C) A high level of risk, where adverse changes could lead to a default on payments.
(D) The highest degree of safety regarding timely payment of financial obligations.

Ans :

(D) The highest degree of safety regarding timely payment of financial obligations.
A 'AAA' rating represents the highest possible grade on the investment scale. It signifies that the issuer is fundamentally strong and possesses the highest degree of safety regarding the timely fulfillment of its financial obligations, including both interest and principal payments. Any adverse changes in circumstances are considered highly unlikely to affect its repayment capacity.

May/June 2012

28. Which credit rating symbol denotes that an instrument is in default in terms of timely payment of interest and principal?
(A) B
(B) D
(C) C
(D) BB

Ans :

(B) D
The rating symbol 'D' is used to indicate that the issuer has already defaulted on its financial obligations. This means there has been a failure in the timely payment of interest or principal on the rated instrument. It is the lowest rating on the scale and signifies an actual, not potential, failure to meet commitments.

Oct/Nov 2010

29. What is the purpose of using '+' or '-' suffixes with credit rating symbols, such as in 'BBB-'?
(A) To signal whether the future outlook for the company's rating is positive or negative.
(B) To differentiate between instruments with short-term and long-term maturity dates.
(C) To provide a more granular ranking by indicating the comparative position within a grade.
(D) To show if the rating was initiated by the issuer or conducted unsolicited by the agency.

Ans :

(C) To provide a more granular ranking by indicating the comparative position within a grade.
The '+' (plus) or '-' (minus) suffixes are used by rating agencies to provide a more granular assessment of credit quality within a specific rating category. They indicate the comparative standing of an instrument within its group. For example, a 'BBB-' rating is considered one notch above (better than) a 'BB+' rating, providing finer distinctions for investors.

May/June 2005

30. Which of the following rating grades is considered speculative?
(A) AAA
(B) AA
(C) BBB
(D) BB

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Oct/Nov 2018

21. Which of the following factors considered by CRAs involves an analysis of demand-supply position, international competition, and future prospects of the sector in which the company operates?
(A) Quality of management
(B) Regulatory environment
(C) Industry risks
(D) Market position of the company

Ans :

(C) Industry risks
The analysis of industry risks involves a broad examination of the sector in which the company operates. CRAs study factors such as the demand and supply dynamics for the industry's products, the level of international competition, and the overall future prospects of that industry. This helps in understanding the external economic environment impacting the company's performance.

May/June 2007

22. A pharmaceutical company operates in a sector with government-imposed price controls on many of its essential drugs. The government also offers significant tax concessions for research and development in this sector. When a CRA evaluates this company, which specific factor of assessment would these elements most directly fall under?
(A) Market position of the company
(B) Regulatory environment
(C) Quality of management
(D) Issuer's ability to service its debt

Ans :

(B) Regulatory environment
The presence of government price controls, support mechanisms like tax concessions, and other forms of government intervention directly pertains to the regulatory environment. A CRA must analyze how these regulations affect the company's profitability, stability, and overall business risk. This factor is distinct from the company's market share, management quality, or its immediate liquidity position.

Oct/Nov 2006

23. Based on a standard credit rating process, what step immediately follows the analysis of a company's financials?
(A) Communicating the rating decision to the Company.
(B) Meeting the Company's officials.
(C) Obtaining information from the Company.
(D) Meeting of the Rating Committee to decide on the rating.

Ans :

(D) Meeting of the Rating Committee to decide on the rating.
In a typical credit rating process, after the CRA's analytical team meets with company officials and completes its analysis of the company's financials, the next step is for the findings to be presented to a rating committee. This committee synthesizes all findings into a final rating decision.

May/June 2010

24. According to the credit rating process, what is the final step after the rating is published on the CRA's website?
(A) Monitoring and review of the rating.
(B) Entering into a new agreement with the company.
(C) Appointment of a new analytical team.
(D) Communicating the decision to the company again.

Ans :

(A) Monitoring and review of the rating.
The credit rating process does not conclude with the publication of the initial rating. The final and ongoing step is the monitoring and review of the rating. This reflects the CRA's responsibility to continuously track the issuer's performance and changing circumstances to ensure the rating remains current and accurate over time.

NODIA

Oct/Nov 2022

25. Which of the following is NOT listed as one of the seven SEBI-approved Credit Rating Agencies in India?
(A) Acuite Ratings & Research Limited
(B) Infomerics Valuation and Rating Pvt. Ltd.
(C) TransUnion CIBIL Limited
(D) Brickwork Ratings India Pvt. Ltd.

Ans :

(C) TransUnion CIBIL Limited
The seven SEBI-approved CRAs operating in India include CRISIL, ICRA, CARE, Ind-Ra, Brickwork, Infomerics, and Acuite. TransUnion CIBIL is a Credit Information Company (CIC) or

lead to rating upgrades or downgrades, providing investors with updated risk assessments as conditions change.

Oct/Nov 2009

17. Which of the following is a key benefit of a high credit rating for an issuer?
(A) Exemption from regulatory oversight by SEBI.
(B) The ability to borrow funds at a lower rate of interest.
(C) A guaranteed increase in the company's stock price.
(D) The right to delay interest payments during financial distress.

Ans :

(B) The ability to borrow funds at a lower rate of interest.
A favorable or high credit rating signals strong creditworthiness and builds investor confidence. This trust reduces the perceived risk for lenders, who are then more willing to provide funds at a lower rate of interest. This benefit of cheaper borrowing is a significant financial advantage for highly-rated companies seeking to raise debt capital.

May/June 2011

18. How can a favorable credit rating provide "Recognition of lesser-known companies"?
(A) It provides credibility and recognition in the eyes of the investing public.
(B) It automatically lists the company on major stock exchanges.
(C) It forces larger competitors to form a partnership with the company.
(D) It grants the company exclusive rights to operate in a specific market.

Ans :

(A) It provides credibility and recognition in the eyes of the investing public.
For companies that are not widely known, obtaining a favorable credit rating from a reputable agency serves as a powerful endorsement. This rating provides them with credibility and enhances their recognition among investors. It signals that the company's financial health and management are sound, making it easier for them to attract capital from the market.

Oct/Nov 2025

19. Consider the following statements regarding the benefits of credit rating:
Statement 1: For investors, credit ratings offer the advantage of continuous monitoring of rated securities.
Statement 2: For issuers, a favorable rating can impose financial discipline as they strive to maintain good operating efficiency and liquidity.
Which of the statements is/are correct?
(A) Only Statement 1
(B) Only Statement 2
(C) Both Statement 1 and Statement 2
(D) Neither Statement 1 nor Statement 2

Ans :

(C) Both Statement 1 and Statement 2
Both statements accurately describe key benefits of credit rating. CRAs continuously monitor rated instruments, providing updated risk information to investors. Simultaneously, the desire to achieve and maintain a high rating encourages issuing companies to manage their finances in a disciplined manner, focusing on efficiency, liquidity, and asset quality, which ultimately protects investor interests.

May/June 2019

20. When assessing an issuer's ability to service its debt, which factor would a CRA be least likely to consider?
(A) The company's past and future cash flows.
(B) The value of assets pledged as collateral security.
(C) The track record of the promoters and directors.
(D) The company's marketing and advertising campaign strategies.

Ans :

(D) The company's marketing and advertising campaign strategies.
While assessing an issuer's debt servicing capacity, a CRA focuses on financial and operational fundamentals. This includes analyzing cash flows, outstanding debts, liquidity, collateral, and management track record. Marketing strategies, while important for business success, are not a direct measure of the company's financial ability to meet its existing debt obligations and are therefore less central to this specific assessment.

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Ans :

(D) BB

Ratings are broadly classified into investment grades and speculative grades. 'BB' falls into the speculative category, denoting inadequate safety in terms of timely payment of interest and principal. It suggests that uncertain changes in economic or business conditions could lead to an inadequate financial capacity to meet debt obligations in the near future.

Oct/Nov 2015

31. In a typical mapping of long-term to short-term credit ratings, which long-term rating would correspond to the highest possible short-term rating?

(A) CRISIL AAA
(B) CRISIL A
(C) CRISIL AA
(D) CRISIL BBB

Ans :

(A) CRISIL AAA

Credit rating agencies often provide mappings between their long-term and short-term rating scales. In these systems, the highest possible long-term rating (e.g., 'CRISIL AAA') signifies the strongest fundamental capacity to meet obligations, which naturally corresponds to the highest possible short-term rating (e.g., 'CRISIL A1'), indicating the strongest capacity for timely payment of short-term debt.

May/June 2024

32. What action does a CRA take when it puts a rating on "watch"?

(A) It immediately suspends the rating and removes it completely from all public platforms.
(B) It signals to stakeholders that the rating is under review for a potential short-term change.
(C) It serves as a confirmation that the rating will remain stable for the next six-month period.
(D) It triggers an automatic downgrade of the rating by one full notch without further review.

Ans :

(B) It signals to stakeholders that the rating is under review for a potential short-term change.

Placing a rating on "watch" is a signal used by CRAs to alert the market and other stakeholders that the rating is under review and could potentially change soon. This action is taken in response to specific events or circumstances that warrant a reassessment. The watch is often accompanied by an indication of a positive, negative, or neutral outlook.

Oct/Nov 2008

33. What is the primary purpose of a "Rating Outlook" assigned by a CRA?

(A) To provide a detailed historical summary of all the issuer's past rating adjustments.
(B) To indicate the likely direction of a rating change over the near to medium term.
(C) To announce the exact, confirmed date on which the next rating change will occur.
(D) To function as a legally binding forecast of the issuer's future financial performance.

Ans :

(B) To indicate the likely direction of a rating change over the near to medium term.

A rating outlook is a forward-looking opinion that complements the current rating. It indicates the likely direction of a rating change over the near to medium term, which is typically defined as a period of six months to two years. It provides lenders and investors with additional context about the potential for future upgrades or downgrades.

May/June 2020

34. What does a "Stable" rating outlook indicate?

(A) A low likelihood of a rating change in the near to medium term.
(B) A high likelihood of an upward rating revision in the near to medium term.
(C) A high likelihood of a downward rating revision in the near to medium term.
(D) A guarantee that the rating will remain unchanged for at least two years.

Ans :

(A) A low likelihood of a rating change in the near to medium term.

A "Stable" outlook suggests that the factors affecting the issuer's creditworthiness are not expected to change significantly in the near future. Therefore, it indicates a low probability that the credit rating will be revised, either

upwards or downwards, over the near to medium term (typically six months to two years).

Oct/Nov 2021

35. What does a "Positive" or "Negative" rating outlook imply about a future rating change?
(A) It serves as a guarantee that the rating will be upgraded or downgraded as indicated.
(B) It means a definite rating change will be announced within the next 30 calendar days.
(C) It indicates a potential direction for a rating change but does not guarantee one will occur.
(D) It represents a final, unalterable decision, irrespective of any future corporate events.

Ans :

(C) It indicates a potential direction for a rating change but does not guarantee one will occur.
An outlook, whether "Positive" or "Negative," does not guarantee that a rating change will occur. It only indicates the likely direction in which the rating might move in the near to medium term based on current trends and information. A rating can still be changed without a prior outlook, or it can remain unchanged despite one.

May/June 2009

36. Which regulatory body in India is responsible for regulating Credit Rating Agencies?
(A) Reserve Bank of India (RBI)
(B) Ministry of Finance
(C) Insurance Regulatory and Development Authority of India (IRDAI)
(D) Securities and Exchange Board of India (SEBI)

Ans :

(D) Securities and Exchange Board of India (SEBI)
In India, Credit Rating Agencies are primarily regulated by the Securities and Exchange Board of India (SEBI). SEBI was one of the first global regulators to establish a comprehensive regulatory framework for CRAs, which was formalized through the SEBI (Credit Rating Agencies) Regulations, 1999, to ensure their proper functioning and protect investor interests.

Oct/Nov 2024

37. As per SEBI's CRA Regulations, what is the minimum net worth required for a CRA to be registered?
(A) Rs. 1 crore
(B) Rs. 25 crores
(C) Rs. 5 crores
(D) Rs. 100 crores

Ans :

(C) Rs. 5 crores
The SEBI (Credit Rating Agencies) Regulations lay down specific eligibility criteria for the registration of CRAs. Among these requirements, a CRA must have a minimum net worth of Rs. 5 crores. This is to ensure that the agency has a sound financial standing and the necessary resources to carry out its rating activities effectively.

May/June 2015

38. What is one of the key requirements under the "Conflict of Interest" provisions of the SEBI CRA Regulations?
(A) CRAs are required to invest at least 10% of their total assets in securities they have rated.
(B) CRAs are prohibited from rating securities issued by their own promoters or associated entities.
(C) The CEO of a CRA must concurrently serve on the board of at least one rated company.
(D) CRAs are obligated to provide advisory services to help rated companies improve their ratings.

Ans :

(B) CRAs are prohibited from rating securities issued by their own promoters or associated entities.
To mitigate conflicts of interest, the SEBI regulations impose clear restrictions. A significant rule is that CRAs are prohibited from rating securities issued by their own promoters or associated companies. This is to ensure that the rating process remains independent and is not influenced by ownership ties, thereby maintaining the integrity of the rating opinion.

Oct/Nov 2017

39. Under the disclosure requirements of the CRA Regulations, for how long must CRAs maintain copies of rating notes, terms of engagement, and decisions of rating committees?
(A) For at least one year.
(B) For at least three years.
(C) For at least ten years.
(D) For at least five years.

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Ans :

(D) For at least five years.
The SEBI CRA Regulations mandate specific disclosure and record-keeping practices to ensure transparency and accountability. CRAs are required to maintain important documents, including their rating notes, records of rating committee decisions, terms of engagement with issuers, and fees charged, for a minimum period of five years. This facilitates regulatory oversight and inspection.

May/June 2023

40. A newly formed company, promoted by a large financial institution with a net worth of Rs. 150 crores, wants to start a credit rating business. It has assembled a professional team and has adequate infrastructure. To get registered with SEBI, what additional financial requirement must the new company itself meet?
(A) It must have a minimum net worth of Rs. 5 crores.
(B) It must have a minimum net worth of Rs. 100 crores.
(C) It must deposit Rs. 10 crores with SEBI as a security.
(D) It must be promoted by a person with a net worth of at least Rs. 200 crores.

Ans :

(A) It must have a minimum net worth of Rs. 5 crores.
The SEBI CRA Regulations have two distinct net worth requirements. The promoters (in this case, the financial institution) must have a net worth of more than Rs. 100 crores, a condition which is met. However, the CRA company itself must also satisfy a separate requirement of having a minimum net worth of Rs. 5 crores to be eligible for registration.

Oct/Nov 2013

41. What was a key outcome of the SEBI guidelines issued in 2016 (Enhanced Standards for Credit Rating Agencies)?
(A) It introduced a mandate that all CRAs must be partially or wholly owned by the government.
(B) It significantly lowered the minimum net worth requirement for all CRAs to Rs. 1 crore.
(C) It mandated public disclosure of rating criteria and standardization of press releases.
(D) It established a new prohibition on CRAs from charging any service fees to instrument issuers.

Ans :

(C) It mandated public disclosure of rating criteria and standardization of press releases.
The 2016 SEBI circular aimed to enhance transparency and standards in the credit rating industry. Key provisions included requiring CRAs to publicly disclose their rating criteria and processes, standardize the format of press releases for rating actions, and disclose ratings even in cases of non-acceptance or non-cooperation by issuers to improve market information.

May/June 2016

42. In the credit rating business model, who typically pays the fees for the rating service?
(A) The issuer of the financial instrument being rated.
(B) The investors who use the ratings for their decisions.
(C) The government, through a subsidy to promote market transparency.
(D) The stock exchange where the instrument is listed.

Ans :

(A) The issuer of the financial instrument being rated.
The predominant revenue model for CRAs is the "issuer-pays" model. The company or entity that issues the debt instrument pays the CRA a fee for the initial rating. This fee constitutes the major source of revenue for rating agencies, accounting for approximately 95% of their total revenues. Investors and other end-users generally do not pay for this service.

Oct/Nov 2014

43. What is credit scoring primarily used for by lenders?
(A) To determine the future stock price of a corporation.
(B) To assess the sovereign risk of a foreign country.
(C) To set national monetary policy and interest rates.
(D) To evaluate the creditworthiness of an individual for loans.

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Ans :

(D) To evaluate the creditworthiness of an individual for loans.
Credit scoring is a statistical analysis used by lenders to determine the creditworthiness of an individual, not a corporation or country. It helps lenders decide whether to extend or deny credit for products like home loans, auto loans, and credit cards by evaluating the probability that the individual will repay their debts as agreed.

May/June 2021

44. The practice of "risk-based pricing" by lenders involves using a credit score to determine which aspect of a loan?
(A) The loan processing time.
(B) The terms of the loan, including the interest rate.
(C) The marketing channel used to offer the loan.
(D) The branch manager responsible for sanctioning the loan.

Ans :

(B) The terms of the loan, including the interest rate.
Risk-based pricing is a methodology where lenders use a borrower's credit score to set the terms of a loan. A higher credit score, indicating lower default risk, will typically result in more favorable terms, such as a lower interest rate. Conversely, a lower credit score, indicating higher risk, may lead to a higher interest rate.

Oct/Nov 2005

45. Which of the following entities are also known as Credit Bureaus in most parts of the world?
(A) Credit Rating Agencies (CRAs)
(B) Asset Reconstruction Companies (ARCs)
(C) Credit Information Companies (CICs)
(D) Non-Banking Financial Companies (NBFCs)

Ans :

(C) Credit Information Companies (CICs)
Credit Information Companies (CICs) are commonly referred to as Credit Bureaus in many other countries. These organizations, which originated in the USA, collect and maintain credit information on individuals and businesses, which is then used to generate credit reports and scores for use by lenders and other authorized entities.

May/June 2013

46. What is the primary function of a Credit Information Company (CIC) in India?
(A) To assign formal credit ratings to the various debt instruments issued by large corporations.
(B) To act as a lender by providing direct loans to individuals who have high credit scores.
(C) To function as a regulator for the lending practices of all commercial banks and NBFCs.
(D) To collect and maintain payment records on loans and credit cards for individuals and businesses.

Ans :

(D) To collect and maintain payment records on loans and credit cards for individuals and businesses.
A CIC's core function is to act as a repository of credit information. It collects data from member banks and other credit institutions regarding the payment history, outstanding dues, and credit behavior of individuals and businesses. This information is then compiled into credit information reports to assess creditworthiness.

Oct/Nov 2023

47. What is the stated objective of India's Credit Information Companies (Regulations) Act, 2005?
(A) To regulate CICs and facilitate the efficient distribution of credit.
(B) To nationalize all credit information companies in India.
(C) To set the maximum interest rates for all consumer loans.
(D) To provide government insurance for all loans disbursed by banks.

Ans :

(A) To regulate CICs and facilitate the efficient distribution of credit.
The Credit Information Companies (Regulations) Act, 2005, was enacted "to provide for regulation of credit information companies and to facilitate efficient distribution of credit and for matters connected therewith or incidental thereto." This highlights its dual purpose of regulating the CICs and improving the overall credit ecosystem.

NODIA

May/June 2008

48. Which was the first Credit Information Company to be established in India, and when was it incorporated?
(A) Experian, incorporated in 2006.
(B) TransUnion CIBIL, incorporated in August 2000.
(C) Equifax, incorporated in 2010.
(D) CRIF High Mark, incorporated in 2007.

Ans :

(B) TransUnion CIBIL, incorporated in August 2000.
TransUnion CIBIL holds the distinction of being the first entrant in the Indian credit information industry. It was incorporated in August 2000 following the recommendations of the Siddiqui Committee. It later commenced its commercial bureau operations in May 2004, pioneering the concept of credit reports and scores in the country.

Oct/Nov 2019

49. What is the range of the credit score provided by TransUnion CIBIL?
(A) 100 to 500
(B) 300 to 900
(C) 200 to 800
(D) 500 to 1000

Ans :

(B) 300 to 900
The CIBIL credit score, which is a widely used metric for individual creditworthiness in India, operates on a scale ranging from 300 to 900. A score of 900 is considered the best, indicating the lowest risk to the lender, while a score of 300 is the worst, indicating extremely high risk.

May/June 2025

50. Which of the four CICs operating in India was originally founded in 1899 in Atlanta, making it one of the oldest globally?
(A) Equifax
(B) TransUnion CIBIL
(C) Experian
(D) CRIF High Mark

Ans :

(A) Equifax
Equifax has a long history, having been founded in Atlanta in the year 1899, which makes it one of the oldest credit bureaus in the world. It expanded its operations to India and received its 'Certificate of Registration' to operate as a CIC in the country in the year 2010.

Oct/Nov 2011

51. Which of the following institutions is NOT mentioned as being eligible for membership to a CIC?
(A) Banks, RRBs, and Co-operative banks.
(B) Insurance Companies and Asset Reconstruction Companies.
(C) Public Sector Undertakings (PSUs) in the manufacturing sector.
(D) Companies providing cellular or telephone services.

Ans :

(C) Public Sector Undertakings (PSUs) in the manufacturing sector.
The list of institutions eligible for CIC membership includes various types of credit institutions (banks, NBFCs, etc.), companies issuing credit cards, insurance companies, telecom service providers, and ARCs. General manufacturing PSUs are not included unless they are involved in the distribution of credit in some manner specified by the RBI.

May/June 2017

52. What did Section 15 of the Credit Information Companies (Regulation) Act (CICRA) initially require of every Credit Institution?
(A) To become a member of all four CICs.
(B) To establish their own in-house credit bureau.
(C) To stop sharing customer data with any external agency.
(D) To become a member of at least one CIC.

Ans :

(D) To become a member of at least one CIC.
Initially, Section 15 of the CICRA mandated that every credit institution must become a member of at least one Credit Information Company. This was to ensure that they contributed data to and could access data from the credit information system. This rule was later revised based on the Aditya Puri Committee recommendations.

Oct/Nov 2020

53. What was the major recommendation of the Aditya Puri Committee Report (2014) regarding CIC membership for Credit Institutions?

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(A) Credit Institutions should be allowed to choose which CIC to join.
(B) Only public sector banks should be members of all CICs.
(C) All Credit Institutions should become members of all CICs.
(D) CIC membership should be made voluntary for all institutions.

Ans :

(C) All Credit Institutions should become members of all CICs.
The Aditya Puri Committee was formed to address issues of incomplete credit history arising from institutions being members of only one CIC. The key recommendation of its report, submitted in January 2014, was that all Credit Institutions should be mandated to become members of all CICs to ensure comprehensive data collection and availability.

May/June 2006

54. Following the Aditya Puri Committee's recommendations, what guideline did the RBI issue regarding fees charged by CICs?
(A) CICs were instructed to double their membership and renewal fees.
(B) CICs were told to moderate their fees, with caps of Rs. 10,000 for membership and Rs. 5,000 for renewal.
(C) All membership and renewal fees were completely abolished.
(D) Fees were to be determined based on the profitability of the member institution.

Ans :

(B) CICs were told to moderate their fees, with caps of Rs. 10,000 for membership and Rs. 5,000 for renewal.
To facilitate the mandatory membership of all credit institutions in all CICs, the RBI directed the CICs to make their fee structures more reasonable. Consequently, guidelines were issued capping the one-time membership fee at a maximum of Rs. 10,000 and the annual renewal fee at a maximum of Rs. 5,000.

Oct/Nov 2012

55. A cooperative bank, which was previously a member of only TransUnion CIBIL, receives a directive based on post-2014 regulatory changes. The bank is concerned about the high costs of joining three more CICs. What regulatory provision addresses the bank's concern about the cost?
(A) The government will provide a subsidy to the bank to cover the new fees.
(B) The bank can apply for an exemption from the mandatory membership rule based on its size.
(C) The bank is only required to pay the fees for one CIC, and the others must provide free membership.
(D) The CICs are mandated to moderate fees, not exceeding Rs. 10,000 for membership and Rs. 5,000 for renewal.

Ans :

(D) The CICs are mandated to moderate fees, not exceeding Rs. 10,000 for membership and Rs. 5,000 for renewal.
This case describes a situation directly addressed by the RBI guidelines following the Aditya Puri Committee report. To ensure that the mandate for all credit institutions to join all CICs was not financially burdensome, the RBI instructed CICs to moderate their fees and set specific caps on membership and annual renewal charges.

May/June 2022

56. What is the significance of the credit score range of 300 to 900 being uniform across all CICs?
(A) It ensures uniform interpretation of scores regardless of which CIC provides the report.
(B) It is a strict legal requirement established by a binding international credit bureau treaty.
(C) It allows each CIC to develop and use its own unique proprietary scoring model.
(D) It is the only numerical range that can be accurately represented by a three-digit number.

Ans :

(A) It ensures uniform interpretation of scores regardless of which CIC provides the report.
The use of a uniform scoring system and range (300-900) by all Credit Information Companies in India is crucial for consistency. It ensures that a score of, for example, 750 has the same interpretation regardless of which CIC generated the report. This uniformity simplifies the evaluation process for lenders across the financial system.

NODIA

Oct/Nov 2016

57. What does statistical data suggest about the relationship between credit scores and loan sanctions in India?

(A) Nearly 90% of all sanctioned loans are for applicants with credit scores below 500.
(B) There is no correlation between an applicant's credit score and the likelihood of loan sanction.
(C) Nearly 90% of all sanctioned loans are for applicants with credit scores of 700 and above.
(D) The majority of loans are sanctioned to applicants with no prior credit history.

Ans :

(C) Nearly 90% of all sanctioned loans are for applicants with credit scores of 700 and above.
There is a strong positive correlation between high credit scores and loan approval rates in India. It is estimated that approximately 90% of all loans that are sanctioned are given to applicants who have a credit score of 700 or higher. This demonstrates the critical importance of maintaining a good credit score for accessing credit facilities.

May/June 2014

58. Which of the following is NOT listed as one of the six typical sections of a credit report?

(A) Future income projections.
(B) Employment information
(C) Personal and contact information
(D) Account and enquiry information

Ans :

(A) Future income projections.
A typical credit report is a historical record and includes sections such as the credit score, personal information, contact details, employment information, account information (details of past and current loans/cards), and enquiry information. It does not contain subjective or forward-looking data like an individual's future income projections, as it is based on past credit behavior.

Oct/Nov 2009

59. Which statement correctly contrasts the presentation and subject of credit ratings versus credit scores?

(A) Credit ratings are given by CICs and are a three-digit number.
(B) Credit scores are given by CRAs and apply to large corporates.
(C) Credit scores may contain a plus or minus sign to denote the outlook for the future.
(D) Credit ratings are alphanumeric, while credit scores are three-digit numbers from 300-900.

Ans :

(D) Credit ratings are alphanumeric, while credit scores are three-digit numbers from 300-900.
Credit ratings and credit scores differ fundamentally. Ratings use an alphanumeric system (e.g., 'Baa3'), often with outlook modifiers, and are issued by CRAs for large entities like corporates. In contrast, scores are purely numerical (typically 300-900), issued by CICs, and apply to individuals and small businesses.

May/June 2011

60. According to the fundamental differences between credit rating and credit scoring, who are the primary subjects of credit scoring?

(A) Large corporates and governments only.
(B) Individuals and small business entities.
(C) Government entities and their agencies.
(D) Publicly listed companies only.

Ans :

(B) Individuals and small business entities.
A key distinction between the two systems is their target subject. While credit rating is for large corporates and governments, credit scoring is specifically designed for assessing the creditworthiness of individuals and small business entities. This distinction is a fundamental difference between the two evaluation mechanisms.

Oct/Nov 2025

61. Assertion (A): A high credit rating makes it easier for a company to raise funds from the market.
Reason (R): A high credit rating increases investor confidence and reduces the perceived risk of an investment.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

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Ans :

(D) The entry of private sector funds and the introduction of formal regulations.
Phase-III, beginning in 1993, represented a new era for the Indian mutual fund industry. This phase was defined by two key developments: the entry of private sector players, which gave investors a wider choice, and the establishment of the first Mutual Fund Regulations in 1993, which brought all funds (except UTI) under a formal regulatory framework.

Oct/Nov 2019

15. Who was the first private sector mutual fund registered in India in July 1993?
(A) Kothari Pioneer
(B) Franklin Templeton
(C) HDFC Mutual Fund
(D) ICICI Prudential Mutual Fund

Ans :

(A) Kothari Pioneer
With the opening of the mutual fund industry to private players in 1993, the erstwhile Kothari Pioneer became the first private sector mutual fund to be registered in India. This registration occurred in July 1993. Kothari Pioneer was later merged with Franklin Templeton, but its entry marked a significant milestone in the industry's liberalization and growth.

May/June 2015

16. The more comprehensive and revised SEBI (Mutual Fund) Regulations, which are still largely in force, were introduced in which year?
(A) 1993
(B) 1996
(C) 2003
(D) 2005

Ans :

(B) 1996
The initial Mutual Fund Regulations of 1993 were subsequently replaced by a more comprehensive and revised set of rules. The SEBI (Mutual Fund) Regulations, 1996, were introduced to create a more robust regulatory framework for the growing industry. These regulations, with amendments over time, continue to govern the mutual fund sector in India.

Oct/Nov 2012

17. What major event occurred in Phase-IV of the mutual fund industry's evolution in February 2003?
(A) The official launch of the very first private sector mutual fund in India.
(B) The bifurcation of the Unit Trust of India (UTI) into two entities.
(C) The transfer of regulatory control of all mutual funds to the Reserve Bank of India.
(D) The implementation of a ban preventing foreign mutual funds from operating in India.

Ans :

(B) The bifurcation of the Unit Trust of India (UTI) into two entities.
Phase-IV of the industry's evolution began with a significant restructuring of its oldest player. In February 2003, following the repeal of the Unit Trust of India Act of 1963, UTI was bifurcated into two distinct entities. This move was part of a larger effort to reform the institution and align it with the prevailing regulatory structure.

May/June 2007

18. According to SEBI's classification, a Multi-Cap Fund belongs to which category of schemes?
(A) Equity Schemes
(B) Debt Schemes
(C) Hybrid Schemes
(D) Solution Oriented Schemes

Ans :

(A) Equity Schemes
SEBI has categorized mutual fund schemes to bring uniformity and clarity for investors. A Multi-Cap Fund is classified as an Equity Scheme. Its defining characteristic is that it is an open-ended equity scheme that invests across large-cap, mid-cap, and small-cap stocks, providing diversification across market capitalizations within a single fund.

Oct/Nov 2008

19. What is the minimum investment required in equity and equity-related instruments for a Large Cap Fund?
(A) 65% of total assets
(B) 75% of total assets
(C) 80% of total assets
(D) 95% of total assets

NODIA

(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 and 2 only
Statement 1 is correct, as SEBI regulations require promoters to have a net worth over Rs. 100 crores. Statement 2 is also correct, as maintaining an arm's length relationship is a key measure to avoid conflicts of interest. Statement 3 is incorrect; the regulations require records to be maintained for at least five years, not ten.

May/June 2010

66. Which of the following statements about credit rating symbols is incorrect?
(A) 'D' denotes high risk but the issuer has not yet defaulted.
(B) 'AAA' denotes the highest safety.
(C) 'BBB' denotes moderate safety and is considered an investment grade.
(D) 'C' denotes substantial risk and the issue is vulnerable to default.

Ans :

(A) 'D' denotes high risk but the issuer has not yet defaulted.
The rating 'D' specifically denotes that the issuer is already in default or is expected to be in default on its financial obligations. It signifies an actual or imminent failure to pay interest or principal, not just a high risk of a future default. The other statements accurately describe their respective rating symbols.

Oct/Nov 2022

67. SEBI regulations require CRAs to maintain records of rating notes, committee decisions, and fees for at least five years. What is the primary purpose of this regulation?
(A) To ensure CRAs generate sufficient fee income.
(B) To create a historical archive for academic research purposes.
(C) To facilitate accountability and enable regulatory inspection by SEBI.
(D) To allow rated companies to challenge the fees charged by the CRA.

Ans :

(C) To facilitate accountability and enable regulatory inspection by SEBI.
The requirement to maintain detailed records for five years is a key component of SEBI's 'Disclosure' and 'Accountability' regulations. This practice ensures transparency and creates a paper trail that allows the regulator (SEBI) to conduct inspections and investigations, thereby holding the CRA accountable for its processes and decisions.

May/June 2018

68. An investor is reviewing two corporate bonds. Bond X has a 'A' rating with a "Negative" outlook. Bond Y has a 'BBB' rating with a "Positive" outlook. Based on this information, which conclusion is most appropriate?
(A) Bond Y is currently safer than Bond X, and its quality is expected to improve.
(B) Both bonds currently possess an identical risk level, but trend in opposite directions.
(C) Bond Y is guaranteed to be upgraded to an 'A' rating within the next six months.
(D) Bond X is currently safer, but its credit quality is expected to decline.

Ans :

(D) Bond X is currently safer, but its credit quality is expected to decline.
A rating of 'A' (adequate safety) is higher and thus currently safer than a 'BBB' rating (moderate safety). However, the "Negative" outlook on Bond X indicates a high likelihood of a future downgrade. Conversely, the "Positive" outlook on Bond Y suggests a potential for an upgrade. Therefore, Bond X is safer now but faces potential deterioration.

Oct/Nov 2007

69. Consider the following four statements:
1. Credit rating is done by Credit Information Companies (CICs).
2. Credit scoring is applicable to individuals and small business entities.
3. A credit score is an alphanumeric symbol like 'Baa3'.
4. A credit rating is an opinion on the creditworthiness of large corporates or governments.

Which combination of statements is correct?
(A) 1 and 3
(B) 2 and 4
(C) 1 and 2
(D) 3 and 4

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(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that a high rating helps in raising funds is true. The reason that this is due to increased investor confidence and lower perceived risk is also true. The reason directly and correctly explains the assertion, as higher confidence and lower risk are precisely why investors are more willing to provide funds to a highly-rated company.

May/June 2019

62. A manufacturing company wants to undertake a major expansion plan. To fund this, it needs to issue debentures in the market. The company's management decides to first approach a CRA for a rating. Which benefit of credit rating is the primary motivation for the company's management in this scenario?
(A) Imposing financial discipline on borrowers.
(B) Gaining recognition as a lesser-known company.
(C) Getting greater information disclosure for investor protection.
(D) Facilitating growth by making it easier to raise debt capital.

Ans :

(D) Facilitating growth by making it easier to raise debt capital.
The company's immediate goal is to fund its expansion and growth plans. A favorable credit rating directly supports this objective by making it easier to raise funds from the public through the issue of debt capital, such as debentures. This enhanced ability to borrow is a key motivator for promoters to seek a rating.

Oct/Nov 2018

63. Identify the incorrect statement regarding the characteristics and importance of credit ratings.
(A) Credit rating constitutes an expert recommendation to either buy or sell a security.
(B) Credit ratings offer an unbiased opinion, as CRAs lack vested interest in the rated firm.
(C) Credit ratings are conveyed via easy-to-understand symbols like 'AAA' or 'BB'.
(D) Credit ratings assist investors in assessing risk and making prudent investment choices.

Ans :

(A) Credit rating constitutes an expert recommendation to either buy or sell a security.
This statement is incorrect because a core characteristic of credit rating is that it is only guidance and explicitly not a recommendation to invest. While it is an expert opinion on credit risk, the CRA does not advise investors on whether to buy, sell, or hold a particular instrument, leaving the final decision to the investor.

May/June 2007

64. Match List-I with List-II and select the correct answer using the codes given below.
List-I (Concept)
P. Modern Rating Origin
Q. First Indian CRA
R. Global Credit Bureau
S. Indian CIC Act
List-II (Detail)
1. CRISIL (1987)
2. John Moody (1909)
3. 2005
4. Experian
Code:
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-2, Q-1, R-4, S-3
The correct matches are: (P) The origin of modern rating is attributed to John Moody in 1909. (Q) The first Indian CRA was CRISIL, established in 1987. (R) Experian is one of the three major global credit bureaus. (S) The Credit Information Companies (Regulations) Act in India was passed in 2005.

Oct/Nov 2006

65. Consider the following three statements about regulations for CRAs in India:
1. Promoters of CRAs must have a net worth of more than Rs. 100 crores.
2. CRAs are required to maintain an arm's length relationship between their rating and non-rating activities.
3. CRAs must preserve records of rating decisions for at least ten years.
Which of the above statements is/are correct?
(A) 1 and 2 only
(B) 2 and 3 only

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CHAPTER 41
Mutual Funds

Oct/Nov 2014

1. What is the primary role of a mutual fund as a financial intermediary?
(A) To provide direct loans to corporations and individuals for consumption purposes
(B) To pool savings from investors and channel them towards productive investments
(C) To exclusively offer insurance and risk coverage products to the public
(D) To manage government securities and treasury bills on behalf of the central bank

Ans :

(B) To pool savings from investors and channel them towards productive investments
Mutual funds function as crucial financial intermediaries by pooling financial resources from a large number of investors. These collected savings are then strategically invested in various securities within the capital market, such as stocks and bonds, thereby directing public savings into productive economic activities and facilitating capital formation in the country.

May/June 2009

2. According to the functional mechanism of a mutual fund, what are the investors who contribute to the fund's pool of resources known as?
(A) Unit holders
(B) Sponsors
(C) Trustees
(D) Custodians

Ans :

(A) Unit holders
A mutual fund operates by issuing units to investors in proportion to the amount of money they invest. These investors, who collectively own the fund's assets, are referred to as unit holders. The profits or losses generated by the fund's investment activities are then distributed among these unit holders in proportion to their respective investments.

Oct/Nov 2021

3. Which regulatory body is responsible for registering, supervising, and formulating policies for mutual funds in India to protect investor interests?
(A) Reserve Bank of India (RBI)
(B) Association of Mutual Funds in India (AMFI)
(C) Securities and Exchange Board of India (SEBI)
(D) Industrial Development Bank of India (IDBI)

Ans :

(C) Securities and Exchange Board of India (SEBI)
The Securities and Exchange Board of India (SEBI) is the primary regulator for the securities market, including mutual funds. Any entity wishing to operate as a mutual fund must first register with SEBI. It formulates regulations and policies aimed at protecting the interests of investors and ensuring the orderly development of the mutual fund industry.

NODIA

May/June 2018

4. In the structure of a mutual fund, which entity is analogous to a promoter of a company and is responsible for establishing the trust?
(A) Asset Management Company (AMC)
(B) Custodian
(C) Trustee
(D) Sponsor

Ans :

(D) Sponsor
A mutual fund is set up as a trust, which is established by a sponsor or a group of sponsors. The sponsor's role is similar to that of a promoter in a traditional company, as they are the primary entity initiating the formation of the fund and appointing other key constituents like trustees and the Asset Management Company.

Oct/Nov 2006

5. What is the primary responsibility of the trustees in the management structure of a mutual fund?

Ans :

(B) 2 and 4
Statement 2 is correct, as credit scoring applies to individuals and small businesses. Statement 4 is also correct, as credit rating assesses large entities. Statement 1 is incorrect because credit rating is done by CRAs, not CICs. Statement 3 is incorrect because a credit score is a three-digit number, while an alphanumeric symbol represents a credit rating.

May/June 2012

70. Which of the following pairs is incorrectly matched?
(A) Credit Rating : Opinion on an issuer's capacity to meet financial obligations.
(B) CRISIL : The first Credit Information Company (CIC) in India.
(C) Credit Scoring : Statistical analysis to determine an individual's creditworthiness.
(D) SEBI CRA Regulations, 1999 : Regulatory framework for CRAs in India.

Ans :

(B) CRISIL : The first Credit Information Company (CIC) in India.
This pair is incorrectly matched. CRISIL (Credit Rating Information Services of India Limited) was the first Credit Rating Agency (CRA) in India, established in 1987. The first Credit Information Company (CIC) or credit bureau to be established in India was TransUnion CIBIL, which was incorporated in 2000. The other pairs are correctly matched.

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The mutual fund industry in India began in 1963 with the establishment of the Unit Trust of India (UTI). This initiative was undertaken by the Government of India and the Reserve Bank of India (RBI) through an Act of Parliament. UTI initially functioned under the regulatory and administrative control of the RBI, marking Phase-I of the industry's evolution.

May/June 2013

10. During Phase-I of the Indian mutual fund industry's evolution, which entity took over the regulatory and administrative control of UTI from the RBI in 1978?
(A) Industrial Development Bank of India (IDBI)
(B) Securities and Exchange Board of India (SEBI)
(C) General Insurance Corporation (GIC)
(D) Life Insurance Corporation of India (LIC)

Ans :

(A) Industrial Development Bank of India (IDBI)
In 1978, a significant change occurred in the oversight of the Unit Trust of India (UTI). The regulatory and administrative control of UTI was de-linked from the Reserve Bank of India (RBI). This responsibility was subsequently transferred to the Industrial Development Bank of India (IDBI), which then assumed control over UTI's operations.

Oct/Nov 2017

11. What was the name of the first scheme launched by the Unit Trust of India (UTI) after its establishment?
(A) Mastergain 1992
(B) India Fund
(C) Kothari Pioneer Bluechip
(D) Unit Scheme, 1964 (US-64)

Ans :

(D) Unit Scheme, 1964 (US-64)
Following its establishment in 1963, the Unit Trust of India (UTI) launched its inaugural investment scheme, which became widely known as the Unit Scheme, 1964, or US-64. This scheme marked the beginning of mutual fund investing for the Indian public and remained a popular investment vehicle for many years, symbolizing the initial phase of the industry.

May/June 2005

12. The second phase of the Indian mutual fund industry began in 1987 with the entry of which type of entities?
(A) Private sector funds sponsored by domestic corporations
(B) Public sector mutual funds other than UTI
(C) Foreign-owned mutual funds from international markets
(D) Joint venture mutual funds between Indian and foreign partners

Ans :

(B) Public sector mutual funds other than UTI
The year 1987 marked the beginning of Phase-II in the evolution of India's mutual fund industry. This phase was characterized by the entry of public sector entities other than UTI into the market. Public sector banks, Life Insurance Corporation (LIC), and General Insurance Corporation (GIC) began establishing their own mutual funds, ending UTI's monopoly.

Oct/Nov 2022

13. Which institution established the first non-UTI mutual fund in India in June 1987?
(A) Canbank
(B) Punjab National Bank
(C) SBI
(D) LIC

Ans :

(C) SBI
The monopoly of the Unit Trust of India came to an end in Phase-II of the industry's evolution. The State Bank of India (SBI) was the first public sector entity to establish a non-UTI mutual fund. SBI Mutual Fund was set up in June 1987, paving the way for other public sector banks and institutions to enter the industry.

May/June 2021

14. Which of the following statements about Phase-III of the Indian mutual fund industry is correct?
(A) The complete nationalization of all existing public and private mutual funds.
(B) The exclusive dominance of the market by public sector bank-sponsored funds.
(C) The government-mandated bifurcation of UTI into two separate, distinct entities.
(D) The entry of private sector funds and the introduction of formal regulations.

NODIA

(A) To make daily, tactical investment decisions for all of the fund's schemes
(B) To execute the physical buying and selling of securities on the stock exchange
(C) To hold fund property for unitholders and provide oversight of the AMC
(D) To directly engage in marketing campaigns and sell units to the general public

Ans :

(C) To hold fund property for unitholders and provide oversight of the AMC
The trustees of a mutual fund hold its assets in trust for the benefit of the unit holders. They are vested with the general power of superintendence and direction over the Asset Management Company (AMC). Their key role is to monitor the performance and ensure the AMC's compliance with regulations laid down by SEBI.

May/June 2024

6. What is the main function of an Asset Management Company (AMC) in a mutual fund's structure?
(A) To physically hold the securities of all schemes in secure, electronic, or physical custody
(B) To manage the fund's portfolio by making investment decisions in various securities
(C) To initiate the formation of the mutual fund trust and appoint the initial trustees
(D) To act as the primary liaison for regulatory compliance and report directly to government bodies

Ans :

(B) To manage the fund's portfolio by making investment decisions in various securities
The Asset Management Company (AMC), which must be approved by SEBI, is the entity responsible for the day-to-day operations and investment management of the mutual fund. The AMC's fund managers make strategic decisions on buying and selling securities for the fund's various schemes in line with their stated investment objectives.

Oct/Nov 2011

7. As per SEBI regulations, what is the minimum requirement for independent directors on the board of a trustee company or board of trustees?
(A) At least 1/3 of the directors must be independent.
(B) At least 50% of the directors must be independent.
(C) All directors on the trustee board must be independent.
(D) At least 2/3 of the directors must be independent.

Ans :

(D) At least 2/3 of the directors must be independent.
To ensure unbiased oversight and governance, SEBI regulations mandate a specific composition for the board of trustees. At least two-thirds of the directors of the trustee company or members of the board of trustees must be independent, meaning they should not be associated with the sponsors of the mutual fund in any conflicting capacity.

May/June 2010

8. How is the Net Asset Value (NAV) per unit of a mutual fund scheme calculated?
(A) Market value of a scheme's securities, minus expenses, divided by total units.
(B) Total market value of securities, plus all scheme expenses, divided by total units.
(C) Total number of outstanding units divided by the total market value of the scheme's securities.
(D) Initial investment value plus all accumulated profits, divided by the total number of units.

Ans :

(A) Market value of a scheme's securities, minus expenses, divided by total units.
The Net Asset Value (NAV) per unit represents the performance of a mutual fund scheme. It is calculated by taking the current market value of all securities held by the scheme, subtracting any accrued expenses and liabilities, and then dividing this net asset value by the total number of units outstanding on that particular date.

Oct/Nov 2025

9. In which year was the first mutual fund in India, the Unit Trust of India (UTI), established?
(A) 1956
(B) 1978
(C) 1963
(D) 1987

Ans :

(C) 1963

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Ans :

(C) 80% of total assets

As per SEBI's guidelines for scheme categorization, a Large Cap Fund is an open-ended equity scheme that predominantly invests in large-cap stocks. To be classified as such, the scheme must maintain a minimum investment of 80% of its total assets in equity and equity-related instruments of large-cap companies, ensuring a clear focus on established businesses.

May/June 2016

20. Which of the following statements is incorrect regarding a Large & Mid Cap Fund?

(A) It is an open-ended equity scheme.
(B) It must invest a minimum of 35% of total assets in large-cap stocks.
(C) It must invest a minimum of 35% of total assets in mid-cap stocks.
(D) It must invest a minimum of 65% of total assets in small-cap stocks.

Ans :

(D) It must invest a minimum of 65% of total assets in small-cap stocks.

A Large & Mid Cap Fund is an open-ended equity scheme designed to invest in both large and mid-capitalization companies. SEBI mandates a minimum investment of 35% of total assets in large-cap stocks and a minimum of 35% in mid-cap stocks. The statement about investing 65% in small-cap stocks is incorrect for this category.

Oct/Nov 2023

21. A Small Cap Fund is mandated to invest a minimum of what percentage of its total assets in the equity of small-cap companies?

(A) 35%
(B) 50%
(C) 65%
(D) 80%

Ans :

(C) 65%

A Small Cap Fund is an open-ended equity scheme that focuses on investing in small-capitalization companies. According to SEBI's classification norms, to qualify as a Small Cap Fund, the scheme must invest a minimum of 65% of its total assets in equity and equity-related instruments of companies that fall under the small-cap category.

May/June 2019

22. What is a key characteristic of a Dividend Yield Fund?

(A) It predominantly invests in government securities to generate a fixed, predictable income stream.
(B) It predominantly invests in stocks of companies with high dividend-payout records.
(C) It invests in equal proportions across large, mid, and small-cap company stocks.
(D) It is a type of debt fund that distributes collected interest payments as regular dividends.

Ans :

(B) It predominantly invests in stocks of companies with high dividend-payout records.

A Dividend Yield Fund is a type of equity scheme that follows a specific investment strategy. The scheme focuses on and predominantly invests in dividend-yielding stocks, with a minimum equity investment of 65%. The objective is to generate regular income for investors through dividends declared by the portfolio companies, in addition to potential capital appreciation.

Oct/Nov 2010

23. What is the primary difference between a Value Fund and a Contra Fund?

(A) A Value Fund invests in high-growth stocks, while a Contra Fund invests in undervalued, out-of-favor stocks.
(B) A Value Fund has a significantly higher minimum equity investment requirement than a Contra Fund.
(C) A Value Fund is restricted to only investing in large-cap stocks, while a Contra Fund can invest across all market caps.
(D) Their core investment philosophy, with one following a value and the other a contrarian strategy.

NODIA

Ans :

(D) Their core investment philosophy, with one following a value and the other a contrarian strategy.

Both are equity schemes with a minimum 65% equity investment. The key distinction lies in their investment philosophy. A Value Fund seeks to invest in stocks that are trading at a price below their intrinsic value. A Contra Fund employs a

contrarian strategy, investing in assets that are currently out of favor with the market.

May/June 2022

24. What is the maximum number of stocks a Focused Fund can invest in?
(A) 30
(B) 20
(C) 50
(D) There is no limit on the number of stocks.

Ans :

(A) 30
A Focused Fund is an equity scheme that concentrates its portfolio on a limited number of stocks. The scheme is mandated to invest in a maximum of 30 stocks. This concentrated approach aims to generate higher returns from a select group of high-conviction bets, though it also increases concentration risk compared to more diversified funds.

Oct/Nov 2009

25. Based on the provided text, analyze the characteristics of an Equity Linked Savings Scheme (ELSS). "An open-ended equity linked saving scheme with a statutory lock in period of 3 years and tax benefit - Minimum investment in equity & equity related instruments – 80% of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by the Ministry of Finance)" Which statement accurately reflects the features of an ELSS?
(A) A debt-oriented scheme with a 5-year mandatory lock-in period and no associated tax benefits.
(B) A close-ended equity scheme with no lock-in period but a minimum 65% equity investment mandate.
(C) An open-ended equity scheme with a 3-year lock-in, tax benefits, and 80% minimum equity investment.
(D) A hybrid scheme with a 3-year lock-in, tax benefits, and a portfolio divided between equity and debt.

Ans :

(C) An open-ended equity scheme with a 3-year lock-in, tax benefits, and 80% minimum equity investment.
The source clearly states that an ELSS is an open-ended equity-linked saving scheme. It has a statutory lock-in period of 3 years and offers tax benefits. Furthermore, it is required to have a minimum investment of 80% of its total assets in equity and equity-related instruments, as per the 2005 notification by the Ministry of Finance.

May/June 2020

26. An Overnight Fund is a type of debt scheme that invests in securities with what maturity period?
(A) 1 day
(B) Up to 91 days
(C) 3 to 6 months
(D) Up to 1 year

Ans :

(A) 1 day
An Overnight Fund is a category of debt scheme designed for extreme short-term parking of funds with minimal risk. It is an open-ended debt scheme that exclusively invests in overnight securities. This means the underlying securities in its portfolio have a maturity of just one day, making it a highly liquid and low-risk investment option.

Oct/Nov 2018

27. What is the maximum maturity of securities that a Liquid Fund can invest in?
(A) 1 day
(B) 30 days
(C) 182 days
(D) 91 days

Ans :

(D) 91 days
A Liquid Fund is an open-ended debt scheme that provides a higher return than a savings account with high liquidity. As per SEBI's classification, these funds are mandated to invest in debt and money market securities that have a maturity of up to 91 days only. This restriction ensures the portfolio remains liquid and less sensitive to interest rate changes.

May/June 2012

28. A debt scheme where the Macaulay duration of the portfolio is between 3 months and 6 months is known as what?
(A) Low Duration Fund
(B) Ultra-Short Duration Fund
(C) Short Duration Fund
(D) Money Market Fund

Ans :

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(B) Ultra-Short Duration Fund

SEBI categorizes several debt funds based on the Macaulay duration of their portfolio, which measures interest rate sensitivity. An Ultra-Short Duration Fund is an open-ended scheme that must maintain a portfolio Macaulay duration of between three and six months. This places it between Liquid Funds and Low Duration Funds in terms of risk and tenure.

Oct/Nov 2014

29. A Gilt Fund is an open-ended debt scheme that is required to invest a minimum of 80% of its total assets in which type of securities?

(A) Corporate bonds rated AAA
(B) Floating rate instruments
(C) Government securities across maturity
(D) Debt instruments of Public Sector Undertakings

Ans :

(C) Government securities across maturity

A Gilt Fund is a specific type of debt fund that focuses on securities issued by the central and state governments. To be categorized as a Gilt Fund, the scheme must invest a minimum of 80% of its total assets in government securities (G-secs). These funds carry negligible credit risk but are subject to interest rate risk.

May/June 2023

30. What is the key difference between a Corporate Bond Fund and a Credit Risk Fund?

(A) A Corporate Bond Fund invests in government securities for safety, while a Credit Risk Fund invests in corporate bonds for yield.
(B) A Corporate Bond Fund requires a minimum investment of 65% in bonds, while a Credit Risk Fund requires a minimum of 80%.
(C) A Corporate Bond Fund is designed for long-term investment horizons, while a Credit Risk Fund is strictly a short-term fund.
(D) The targeted credit quality of bonds, with Corporate Bond Funds seeking the highest ratings and Credit Risk Funds seeking lower ratings.

Ans :

(D) The targeted credit quality of bonds, with Corporate Bond Funds seeking the highest ratings and Credit Risk Funds seeking lower ratings.

Both are debt schemes investing in corporate bonds, but they target different credit qualities. A Corporate Bond Fund must predominantly invest (minimum 80%) in the highest-rated corporate bonds, implying lower credit risk. Conversely, a Credit Risk Fund must predominantly invest (minimum 65%) in corporate bonds that are rated below the highest grade, taking on higher credit risk for potentially higher yields.

Oct/Nov 2016

31. A hybrid fund that invests between 10% and 25% in equity and between 75% and 90% in debt instruments is classified as what?

(A) Conservative Hybrid Fund
(B) Aggressive Hybrid Fund
(C) Balanced Hybrid Fund
(D) Dynamic Asset Allocation Fund

Ans :

(A) Conservative Hybrid Fund

Hybrid funds are categorized based on their allocation to equity and debt. A Conservative Hybrid Fund is designed for risk-averse investors, with a predominant allocation to debt. The mandate requires it to invest between 75% and 90% of its total assets in debt instruments, with a smaller allocation of 10% to 25% in equity.

NODIA

May/June 2014

32. What are the specified asset allocation ranges for a Balanced Hybrid Fund?

(A) Equity between 65%-80% and Debt between 20%-35%
(B) Equity between 40%-60% and Debt between 40%-60%
(C) Equity between 10%-25% and Debt between 75%-90%
(D) Equity and Debt allocation is managed dynamically without any specific range.

Ans :

(B) Equity between 40%-60% and Debt between 40%-60%

A Balanced Hybrid Fund aims to provide a mix of growth and stability by investing in both equity and debt. SEBI's guidelines mandate that such a fund must maintain its allocation to equity and equity-related instruments between 40% and 60% of total assets, and similarly, its allocation to debt instruments must also be between 40% and 60%.

Oct/Nov 2007

33. A Multi Asset Allocation fund must invest in at least how many asset classes with a minimum allocation to each?

(A) At least two distinct asset classes with a minimum of 25% allocation to each.
(B) Three or more asset classes with at least 10% allocation to each.
(C) At least four separate asset classes with a minimum of 10% allocation to each.
(D) At least three different asset classes with a minimum of 33% allocation to each.

Ans :

(B) Three or more asset classes with at least 10% allocation to each.
A Multi Asset Allocation fund is a type of hybrid scheme designed to provide true diversification. The scheme is required to invest in at least three different asset classes. A key condition is that it must maintain a minimum allocation of at least 10% of its total assets in each of these three asset classes.

May/June 2025

34. A Retirement Fund, classified under Solution Oriented Schemes, has what lock-in period?

(A) 5 years or till retirement age, whichever is earlier.
(B) 3 years or till retirement age, whichever is earlier.
(C) 5 years or till retirement age, whichever is later.
(D) 3 years or till retirement age, whichever is later.

Ans :

(A) 5 years or till retirement age, whichever is earlier.
Solution Oriented Schemes are designed to meet specific life goals. A Retirement Fund falls into this category and comes with a mandatory lock-in period to encourage long-term investment. The lock-in period is specified as 5 years from the date of investment or until the investor reaches their retirement age, whichever of these two events occurs earlier.

Oct/Nov 2005

35. What is the minimum investment required in the underlying fund for a Fund of Funds (FoFs) scheme?

(A) 65% of total assets
(B) 80% of total assets
(C) 95% of total assets
(D) 100% of total assets

Ans :

(C) 95% of total assets
A Fund of Funds (FoF) is a scheme that invests in the units of other mutual fund schemes instead of directly investing in stocks or bonds. To ensure it adheres to its stated objective, SEBI mandates that an FoF scheme must invest a minimum of 95% of its total assets in the underlying fund or funds it is designed to track.

May/June 2017

36. Match the Hybrid Fund category in List-I with its correct equity allocation range in List-II.

	List-I (Hybrid Fund)		**List-II (Equity Allocation)**
P.	Conservative Hybrid Fund	1.	Between 40% and 60%
Q.	Balanced Hybrid Fund	2.	Between 65% and 80%
R.	Aggressive Hybrid Fund	3.	Between 10% and 25%
S.	Equity Savings Fund	4.	Minimum 65% (including arbitrage)

(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-1, R-2, S-4
The correct matching is based on SEBI's asset allocation rules. A Conservative Hybrid Fund has an equity allocation of 10%-25%. A Balanced Hybrid Fund has an equity allocation of 40%-60%. An Aggressive Hybrid Fund has a higher equity allocation of 65%-80%. An Equity Savings Fund must have a minimum total equity/arbitrage investment of 65%.

Oct/Nov 2015

37. An investor wants to save for their child's higher education. They choose a specific "solution-oriented" mutual fund scheme designed for this purpose. The child is currently 15 years old. The investor is informed that they cannot redeem the investment for a certain period. When can

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the investor redeem the investment from this Children's Fund?
(A) After a fixed period of 3 years has elapsed from the original investment date.
(B) Only after the child has officially turned 21 years old, with no exceptions.
(C) After 5 years from the investment date or when the child turns 18, whichever event occurs first.
(D) After 5 years from the investment date or when the child turns 18, whichever event occurs later.

Ans :

(C) After 5 years from the investment date or when the child turns 18, whichever event occurs first.
A Children's Fund is a solution-oriented scheme with a specific lock-in period to ensure goal-based savings. The rule states that the lock-in period is for at least 5 years or until the child attains the age of majority (18 years), whichever is earlier. This structure allows for early redemption if the 5-year period ends before the child turns 18.

May/June 2006

38. Which type of mutual fund scheme is available for subscription and repurchase on a continuous basis and does not have a fixed maturity period?
(A) Close-ended fund
(B) Open-ended fund
(C) Interval fund
(D) Thematic fund

Ans :

(B) Open-ended fund
An open-ended fund is characterized by its high liquidity and flexibility. These schemes are continuously available for investors to subscribe (buy) or repurchase (sell) units directly from the mutual fund at the prevailing Net Asset Value (NAV). They do not have a fixed maturity date, allowing investors to enter and exit at their convenience.

Oct/Nov 2013

39. For a close-ended fund, what are the two exit routes that SEBI mandates must be offered to investors?
(A) Offering daily repurchase at NAV or listing on a major stock exchange.
(B) Providing a periodic repurchase facility or allowing a free transfer to another scheme.
(C) A guaranteed buyback by the sponsor or listing units on a stock exchange.
(D) Either offering periodic repurchases or listing units on a stock exchange.

Ans :

(D) Either offering periodic repurchases or listing units on a stock exchange.
Close-ended funds have a fixed maturity and are open for subscription only during the New Fund Offer (NFO). To provide liquidity to investors before maturity, SEBI regulations stipulate that the fund must provide at least one of two exit routes: listing the fund's units on a stock exchange for trading, or offering periodic repurchase of units at NAV-related prices.

May/June 2008

40. A fund that combines features of both open-ended and close-ended funds, allowing transactions only during specific, pre-defined periods, is known as what?
(A) Interval fund
(B) Hybrid fund
(C) Dynamic fund
(D) Balanced fund

Ans :

(A) Interval fund
An interval fund possesses a unique structure. It functions like a close-ended fund for most of its tenure but opens for transactions (purchase and redemption) at specific, pre-determined intervals. The transaction period must be for at least two days, with a gap of at least 15 days between two such periods, blending illiquidity with periodic liquidity windows.

Oct/Nov 2020

41. A mutual fund where the fund manager makes deliberate decisions to invest in securities with the aim of outperforming a market index is called what?
(A) A passive fund
(B) An index fund
(C) An active fund
(D) A Fund of Funds

Ans :

(C) An active fund
An actively managed fund, or an active fund, involves a fund management team that conducts research and analysis to make deliberate

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additional avenue for earning fee-based income, as mutual funds pay brokerage or commission for the business canvassed.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true as banks leverage their extensive infrastructure to distribute mutual funds. Reason (R) is also true, as mutual funds compensate distributors with commissions (around 1.5% to 2.5%). Reason (R) correctly explains the financial incentive for Assertion (A), as this fee-based income is a primary motivation for banks to undertake this business.

NODIA

Mutual funds provide an accessible avenue for small savers to participate in the capital market. The text highlights that investments can be made with amounts as low as Rs. 500. This low entry barrier allows a broad segment of the population to start investing and benefit from professional management and diversification, particularly through methods like SIP.

Oct/Nov 2018

47. What is the fundamental difference between the roles of SEBI and AMFI in the mutual fund industry?

(A) SEBI is the official regulator, while AMFI is an industry body for best practices.
(B) SEBI is responsible for managing funds, while AMFI is responsible for regulating them.
(C) SEBI is a government regulatory body, while AMFI is a for-profit private corporation.
(D) SEBI sets the maximum expense ratios, while AMFI is tasked with determining the daily NAV.

Ans :

(A) SEBI is the official regulator, while AMFI is an industry body for best practices.
In the Indian mutual fund landscape, SEBI and AMFI have distinct roles. SEBI (Securities and Exchange Board of India) is the official government-appointed regulator responsible for creating and enforcing rules to protect investors. AMFI (Association of Mutual Funds in India) is an industry association that acts as a self-regulatory organization (SRO), promoting ethical standards and best practices.

May/June 2007

48. Consider the following objectives of the Association of Mutual Funds in India (AMFI):

1. To promote best business practices and code of conduct.
2. To directly approve or reject New Fund Offers (NFOs).
3. To interact with SEBI for the betterment of the MF industry.
4. To develop a well-trained agent distributors network.

Which of these are stated objectives of AMFI according to the provided text?

(A) 1, 2, and 3 only
(B) 1, 3, and 4 only
(C) 2 and 4 only
(D) All of the above

Ans :

(B) 1, 3, and 4 only
The text lists several objectives for AMFI. These include promoting best practices and a code of conduct, interacting with SEBI for industry betterment, and developing a trained distributor network. The authority to directly approve or reject NFOs rests with the regulator, SEBI, not the industry association AMFI, making statement 2 incorrect.

Oct/Nov 2025

49. AMFI was incorporated as a non-profit organisation on which date?

(A) August 22, 1993
(B) August 22, 1995
(C) June 30, 1995
(D) January 1, 1996

Ans :

(B) August 22, 1995
The Association of Mutual Funds in India (AMFI) was established to promote the interests of the mutual fund industry and its unitholders. As stated in the text, AMFI was incorporated on August 22, 1995, as a non-profit organization. It plays a crucial role in setting ethical standards and interacting with regulators on behalf of the industry.

May/June 2012

50. What is the typical duration for which a New Fund Offer (NFO) for open-ended and close-ended schemes (excluding ELSS) should be open?

(A) 15 days
(B) 7 days
(C) 30 days
(D) 45 days

Ans :

(A) 15 days
A New Fund Offer (NFO) is the process through which a new mutual fund scheme is launched and opened for initial subscription. For most schemes, specifically open-ended and close-ended ones (with the exception of Equity Linked Savings Schemes), the regulations state that the NFO period should be open for a duration of 15 days.

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of an investment as if it had grown at a steady rate on an annual compounded basis?
(A) Absolute Return Method (Total Gain)
(B) Simple Interest Method (Non-Compounded)
(C) Annualised Return Method (CAGR)
(D) XIRR function for irregular cash flows

Ans :

(C) Annualised Return Method (CAGR)
The Annualised Return Method, which uses the Compound Average Growth Rate (CAGR), is the appropriate measure for investment periods longer than one year. It calculates the mean annual growth rate of an investment over a specified period, providing a smoothed-out representation of its performance on a year-over-year compounded basis.

May/June 2009

62. The formula for calculating CAGR is given as

$$\text{CAGR} = \left[\left(\frac{\text{Current Value}}{\text{Beginning Value}}\right)^{\left(\frac{1}{\text{number of Years}}\right)}\right] - 1$$

What does this formula represent?
(A) The total, non-annualized percentage increase in value over the entire holding period.
(B) The arithmetic average of the yearly returns, which does not account for compounding effects.
(C) The internal rate of return (IRR) calculated for a series of irregular or uneven cash flows.
(D) The constant annual rate of return needed to achieve the final investment value.

Ans :

(D) The constant annual rate of return needed to achieve the final investment value.
The CAGR formula calculates the geometric mean return. It represents the hypothetical constant annual rate at which an investment would need to grow from its beginning balance to its ending balance if the profits were reinvested at the end of each year. It provides a more accurate picture of long-term performance than simple average returns.

Oct/Nov 2011

63. How frequently must mutual funds publish the NAV of their schemes (except for Fund of Fund schemes)?
(A) Daily, in at least two daily newspapers and on their websites
(B) On a weekly basis, published in at least one major business newspaper
(C) On a monthly basis, updated solely on the fund house's official website
(D) Only upon specific written or electronic request from an existing investor

Ans :

(A) Daily, in at least two daily newspapers and on their websites
To ensure transparency and provide investors with up-to-date information, regulations mandate that mutual funds must publish the Net Asset Value (NAV) of their schemes on a daily basis. This publication must appear in at least two daily newspapers, in addition to being updated on the websites of the fund house and AMFI.

May/June 2010

64. To ensure uniformity, up to how many decimal places are mutual funds required to round off the NAV for debt and liquid fund schemes?
(A) Two decimal places
(B) Four decimal places
(C) Three decimal places
(D) No rounding is required.

Ans :

(B) Four decimal places
SEBI has mandated specific rounding-off norms for NAV calculation to maintain uniformity across the industry. For index funds and all types of debt, liquid, and money market schemes, fund houses are required to calculate and declare the NAV rounded off to four decimal places. This precision is important for funds with small daily NAV changes.

Oct/Nov 2024

65. What does a mutual fund's expense ratio represent?
(A) The one-time transactional charge for entering or exiting a specific fund scheme.
(B) The annual operating cost of the fund, shown as a percentage of its assets.
(C) The total profit distributed to unit holders, expressed as a percentage of the NAV.
(D) The capital gains tax paid by the fund on its investment profits before distribution.

Ans :

(B) The annual operating cost of the fund, shown as a percentage of its assets.

NODIA

(D) Concentration risk

Ans :

(A) Liquidity risk
Liquidity risk is the risk that an investor may not be able to sell their investment quickly at a fair price. Schemes like Equity Linked Savings Schemes (ELSS) have a mandatory lock-in period of 3 years. During this time, the investor cannot redeem their units, which exposes them to liquidity risk, as their capital is not accessible.

Oct/Nov 2016

57. The SEBI Risk-o-meter, as modified in 2020, depicts the risk to the principal invested using how many levels?
(A) Four levels
(B) Five levels
(C) Six levels
(D) Seven levels

Ans :

(C) Six levels
The Risk-o-meter is a pictorial tool used for product labeling to help investors understand the risk level of a mutual fund scheme. Initially introduced with five levels in 2015, it was modified in 2020 based on recommendations from the Mutual Fund Advisory Committee (MFAC). The updated version now includes six distinct levels of risk.

May/June 2014

58. Identify the correct sequence of risk levels on the Risk-o-meter, from lowest to highest.
(A) Low, Moderately Low, Moderate, Moderately High, High, Very High
(B) Low, Conservative, Moderate, Growth, Aggressive, Very Aggressive
(C) Safe, Low Risk, Medium Risk, High Risk, Very High Risk, Speculative
(D) Low, Low-Moderate, Moderate, High-Moderate, High, Ultra High

Ans :

(A) Low, Moderately Low, Moderate, Moderately High, High, Very High
The six-level Risk-o-meter provides a granular depiction of risk. The levels are arranged in ascending order of risk to the invested principal. The sequence starts at 'Low', progresses through 'Moderately Low', 'Moderate', 'Moderately High', and 'High', and culminates at the highest risk level, which is designated as 'Very High'.

Oct/Nov 2007

59. According to the description of risk levels, funds that invest in the debt market, tend to be long-term, and offer low returns are most likely to fall into which category?
(A) High-risk funds
(B) Moderately High-risk funds
(C) Medium-risk funds
(D) Low-risk funds

Ans :

(D) Low-risk funds
Low-risk funds are designed for investors with a low appetite for risk. These funds typically invest in safer asset classes like the debt market. While they are often suitable for long-term investment horizons, their low-risk nature generally corresponds with lower potential returns compared to funds in higher-risk categories like equity funds.

May/June 2025

60. An investor has an initial investment of Rs. 5,00,000 in a mutual fund and finds that its market value has grown to Rs. 7,00,000 after 11 months. The investor wants to calculate the return on this investment without considering the time period. Which method should be used and what is the calculated return?
(A) Annualised Return Method; 40%
(B) Absolute Return Method; 40%
(C) CAGR Method; 35%
(D) Absolute Return Method; 28.57%

Ans :

(B) Absolute Return Method; 40%
The Absolute Return Method is ideal for calculating returns when the investment period is less than one year, as it does not annualize the return. The calculation is

$$\frac{(\text{Current Value} - \text{Initial Value})}{\text{Initial Value}}.$$

In this case, the absolute return is

$$\frac{700{,}000 - 500{,}000}{500{,}000} = 0.40 \text{ or } 40\%.$$

Oct/Nov 2019

61. For an investment period exceeding one year, which method is ideal for measuring the growth

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Oct/Nov 2006

51. What is the minimum subscription amount that must be collected during an NFO for a debt-oriented scheme?
(A) Rs. 10 crores
(B) Rs. 50 crores
(C) Rs. 20 crores
(D) Rs. 100 crores

Ans :

(C) Rs. 20 crores
To ensure the viability of a newly launched scheme, SEBI has prescribed minimum subscription amounts to be collected during the NFO period. For debt-oriented and balanced schemes, the minimum amount that must be raised from investors is Rs. 20 crores. For other schemes, such as equity funds, the minimum requirement is Rs. 10 crores.

May/June 2021

52. Within how many business days of an NFO's closure must the mutual fund allot units and send account statements to investors?
(A) 2 business days
(B) 10 business days
(C) 15 business days
(D) 5 business days

Ans :

(D) 5 business days
To ensure prompt processing and transparency for investors after a New Fund Offer (NFO) concludes, regulations set a specific timeline. The mutual fund is required to complete the allotment of units to the applicants and dispatch the corresponding account statements within 5 business days from the date of the NFO's closure.

Oct/Nov 2010

53. The risk of loss due to factors like inflation, recession, and political unrest, which affects the entire market and cannot be eliminated by diversification, is known as what?
(A) Concentration risk
(B) Credit risk
(C) Market risk or systematic risk
(D) Liquidity risk

Ans :

(C) Market risk or systematic risk
Market risk, also referred to as systematic risk, arises from broad market-wide factors that affect all investments, such as economic recessions, political instability, or natural disasters. This type of risk is inherent to investing in the market and cannot be mitigated simply by diversifying a portfolio across different stocks or sectors within that market.

NODIA

May/June 2005

54. An investor who puts all their money into a single sectoral fund, like a technology fund, is exposing themselves primarily to which type of risk?
(A) Interest rate risk
(B) Concentration risk
(C) Liquidity risk
(D) Credit risk

Ans :

(B) Concentration risk
Concentration risk arises from focusing investments on a single asset, company, or sector. By investing solely in a technology fund, the investor's portfolio performance becomes heavily dependent on the fortunes of that one sector. A downturn in the technology industry would lead to significant losses, a risk that could be minimized through diversification.

Oct/Nov 2022

55. Interest rate risk, which is the risk of bond prices falling due to rising market interest rates, primarily affects which category of mutual funds?
(A) Equity mutual funds
(B) Arbitrage funds
(C) Index funds
(D) Debt mutual funds

Ans :

(D) Debt mutual funds
Interest rate risk is most pronounced in debt mutual funds. These funds invest in fixed-income instruments like bonds and debentures. There is an inverse relationship between bond prices and interest rates; when market interest rates rise, the value of existing bonds with lower coupon rates falls, leading to a decrease in the fund's NAV.

May/June 2018

56. When an investor is unable to sell their units in a tax-saving fund due to a mandatory holding period, they are facing which specific type of risk?
(A) Liquidity risk
(B) Market risk
(C) Credit risk

The Total Expense Ratio (TER) represents the annual operating costs of a mutual fund, including management fees, administrative costs, and advertising expenses. It is expressed as a percentage of the fund's average daily net assets. This ratio is deducted from the fund's returns, directly impacting the final yield received by the investor.

May/June 2017

66. An investor holds units in a mutual fund scheme where the NAV per unit is Rs. 90. The fund house has disclosed an exit load of 1% in its offer document. If the investor decides to offer their units for repurchase to the mutual fund, what is the net amount they will receive per unit?
(A) Rs. 89.10
(B) Rs. 90.90
(C) Rs. 90.00
(D) Rs. 89.00

Ans :

(A) Rs. 89.10
An exit load is a fee charged by the mutual fund when an investor redeems or sells their units. The load is calculated as a percentage of the NAV. Here, the exit load is 1% of Rs. 90, which is Rs. 0.90. The amount received by the investor will be the NAV less the exit load: Rs. 90 - Rs. 0.90 = Rs. 89.10.

Oct/Nov 2005

67. What did SEBI mandate regarding entry loads for all mutual fund schemes in India?
(A) Entry load is capped at a maximum of 2.5%.
(B) Entry load can only be charged on equity schemes.
(C) No entry load can be charged for any mutual fund scheme.
(D) Entry load is determined by AMFI on a yearly basis.

Ans :

(C) No entry load can be charged for any mutual fund scheme.
In a significant move to make mutual fund investments more investor-friendly and cost-effective, the Securities and Exchange Board of India (SEBI) mandated the removal of entry loads. As a result, no mutual fund scheme in India is permitted to charge an entry load, meaning investors can enter a fund at its prevailing Net Asset Value (NAV).

May/June 2020

68. A risk-averse investor has received a large, one-time bonus and wishes to invest it in an equity fund. However, they are hesitant to invest the entire amount at once due to market volatility. Their financial advisor suggests first placing the money in a low-risk liquid fund and then giving the AMC consent to automatically move a fixed amount to an equity fund of the same AMC every month. Which investment strategy is being recommended?
(A) Systematic Investment Plan (SIP)
(B) Systematic Withdrawal Plan (SWP)
(C) Lump-sum Investment
(D) Systematic Transfer Plan (STP)

Ans :

(D) Systematic Transfer Plan (STP)
The Systematic Transfer Plan (STP) is a strategy where an investor gives consent to a mutual fund company to periodically transfer a certain amount from one scheme to another within the same fund house. This is suitable for investors who have a lump sum but want to stagger their entry into a riskier asset class like equity.

Oct/Nov 2015

69. A retired individual wants a regular monthly income from their mutual fund investment. They first invest a lump sum in a low-risk fund and then arrange to redeem a fixed amount every month. Which facility are they using?
(A) Systematic Investment Plan (SIP)
(B) Systematic Transfer Plan (STP)
(C) Systematic Withdrawal Plan (SWP)
(D) Dividend Payout Option

Ans :

(C) Systematic Withdrawal Plan (SWP)
The Systematic Withdrawal Plan (SWP) is the opposite of a SIP. It allows an investor to redeem a specific amount of money from their mutual fund scheme at regular intervals (e.g., weekly, monthly, quarterly). This is particularly useful for retirees or others who need a steady cash flow from their accumulated investment corpus.

May/June 2006

70. Assertion (A): Banks have increasingly started acting as corporate distributors for mutual funds, using their branch networks to market these products.
Reason (R): This activity provides banks with an

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investment choices. The primary goal is to "beat the market" by selecting securities that they believe will outperform a chosen benchmark index. This hands-on approach typically results in higher expenses compared to passive funds.

May/June 2011

42. What is the primary objective of a passive fund, such as an Index Fund?
(A) To replicate the performance and returns of a specific underlying market index.
(B) To outperform its benchmark index through active stock selection.
(C) To invest only in government securities for capital preservation.
(D) To dynamically shift assets between equity and debt based on market views.

Ans :

(A) To replicate the performance and returns of a specific underlying market index.
A passive fund, like a Nifty 50 Index Fund, does not aim to outperform the market. Instead, its objective is to replicate the performance of a specific market index. The fund manager achieves this by investing in all the securities that constitute the index, in the same proportion as their weightage in the index itself.

Oct/Nov 2024

43. The performance of an index fund is measured by "tracking error," which indicates what?
(A) The difference between the fund's net asset value (NAV) and its traded market price.
(B) The percentage of the fund's total assets that are not invested in the index components.
(C) A comparison of the fund's total expense ratio to that of an average active fund.
(D) The degree to which the fund's returns deviate from its benchmark index's returns.

Ans :

(D) The degree to which the fund's returns deviate from its benchmark index's returns.
Tracking error is a key metric for evaluating passive funds. It quantifies the deviation of the fund's performance from the performance of its benchmark index. A lower tracking error indicates that the fund is more successful in replicating the index's returns. Factors like expenses and cash drag can contribute to tracking error.

May/June 2016

44. Which type of investment scheme option is ideal for an investor seeking capital appreciation who does not want erosion of capital by regular pay-outs?
(A) Dividend scheme
(B) Growth scheme
(C) Interval scheme
(D) Systematic Withdrawal Plan

Ans :

(B) Growth scheme
In a growth scheme or option, all earnings, including dividends and capital gains generated by the fund's portfolio, are automatically reinvested back into the scheme. This leads to compounding and capital appreciation over time, as there are no periodic payouts to the investor. It is suitable for long-term wealth creation rather than regular income.

Oct/Nov 2009

45. Which of the following is NOT listed as a primary role of mutual funds for investors?
(A) Providing professional fund management
(B) Offering high liquidity
(C) Guaranteeing fixed returns on all investments
(D) Allowing portfolio diversification with small investments

Ans :

(C) Guaranteeing fixed returns on all investments
Mutual funds offer several benefits, including professional management, portfolio diversification, and relatively high liquidity (especially in open-ended schemes). However, mutual fund investments are subject to market risks and do not guarantee returns. The value of investments can fluctuate, and there is no assurance of fixed returns, unlike some bank deposits or government saving schemes.

May/June 2023

46. What is the minimum investment amount mentioned for starting an investment in mutual funds?
(A) Rs. 100
(B) Rs. 1,000
(C) Rs. 5,000
(D) Rs. 500

Ans :

(D) Rs. 500

NODIA

CHAPTER 42
Insurance Products

Oct/Nov 2018

1. According to the fundamental definition, what is the nature of an insurance agreement?
(A) A verbal promise between an insurer and an individual to cover potential future events.
(B) A legal agreement between an insurer and an insured to make good on losses upon a contingency.
(C) A mandatory government scheme for pooling community resources against common risks.
(D) A financial investment instrument that guarantees returns upon maturity or a specified event.

Ans :

(B) A legal agreement between an insurer and an insured to make good on losses upon a contingency.
Insurance is a formal legal contract between two parties: the insurance company (insurer) and the individual (insured). The insurer promises to compensate the insured for financial losses resulting from the occurrence of a specified uncertain event, known as a contingency. This agreement is formalized in a document called an insurance policy, establishing the legal obligations of both parties.

May/June 2005

2. What is the consideration paid by the insured to the insurer in an insurance contract?
(A) Premium
(B) Policy
(C) Indemnity
(D) Contingency

Ans :

(A) Premium
In an insurance contract, the insured pays a specified amount, known as the 'premium', as consideration for the promise made by the insurer. This payment secures the insurer's commitment to indemnify or make good any financial loss suffered by the insured if the insured event occurs. The contract itself is referred to as the 'policy'.

Oct/Nov 2012

3. Which of the following is NOT one of the fundamental principles governing insurance contracts, in addition to the essentials of a valid contract?
(A) Principle of Indemnity
(B) Principle of Insurable Interest
(C) Principle of Absolute Certainty
(D) Principle of Utmost Good Faith

Ans :

(C) Principle of Absolute Certainty
Insurance contracts are subject to several additional principles beyond those of a standard contract. These include Utmost Good Faith, Insurable Interest, Indemnity, Subrogation, Contribution, and Proximate Cause. The principle of absolute certainty is not an insurance principle; in fact, insurance operates on the basis of uncertainty or contingency regarding the happening of an event.

May/June 2024

4. What is the Latin term for the Principle of Utmost Good Faith?
(A) Caveat Emptor
(B) Quid Pro Quo
(C) Res Ipsa Loquitur
(D) Uberrimae Fidei

Ans :

(D) Uberrimae Fidei
The Principle of Utmost Good Faith is known by the Latin term 'Uberrimae Fidei'. This principle imposes a positive duty on the proposer to voluntarily, accurately, and fully disclose all facts material to the risk being proposed, regardless of whether the insurer has specifically asked for them. This duty of disclosure is central to the formation of a valid insurance contract.

NODIA

Oct/Nov 2019

31. An insured person has a 20-year life insurance policy with a sum assured of Rs. 1 lakh. The yearly premium is paid for 10 years, after which the policyholder defaults on payments. What is the paid-up value of the policy before adding any accrued bonus?
(A) Rs. 50,000
(B) Rs. 1,00,000
(C) Rs. 25,000
(D) Rs. 75,000

Ans :

(A) Rs. 50,000
The paid-up value is the reduced sum assured when premiums are discontinued after a certain period. It is calculated as:

$$\frac{\text{No.of Premiums Paid}}{\text{Total Premiums Payable}} \times \text{Sum Assured}$$

In this scenario, the calculation is

$$\frac{10}{20} \times 1,00,000 = \text{Rs.}50,000$$

The policy continues with this reduced sum assured.

May/June 2010

32. If a policy with a calculated paid-up value of Rs. 50,000 had also accrued a bonus of Rs. 35,000 before it lapsed, what would be the total paid-up value?
(A) Rs. 50,000
(B) Rs. 85,000
(C) Rs. 35,000
(D) Rs. 15,000

Ans :

(B) Rs. 85,000
The total paid-up value of a lapsed policy includes the reduced sum assured (the basic paid-up value) plus any bonus that has already been vested or accrued before the policy lapsed. Therefore, the total value would be the sum of the basic paid-up value and the accrued bonus:
Rs. 50,000 + Rs. 35,000 = Rs. 85,000.

Oct/Nov 2005

33. Based on the text's description of "Coverage of Health Insurance Policy," which of the following expenses is explicitly listed as being covered?
(A) Cost of nutritional supplements and wellness products.
(B) Fees of the surgeon, anesthetist, and physician.
(C) Expenses for elective cosmetic surgery procedures.
(D) Cost of personal transportation to and from the hospital.

Ans :

(B) Fees of the surgeon, anesthetist, and physician.
The provided text explicitly lists several heads of expenses covered under a health insurance policy. Among these are fees of surgeon, anesthetist, physician, consultants, and specialists. Other listed items include room and boarding, nursing expenses, and costs related to anesthesia, blood, oxygen, and diagnostic materials, subject to the overall ceiling of the sum insured.

May/June 2023

34. What is the general minimum hospitalization period required to become eligible to make a claim under a health insurance policy?
(A) 24 hours
(B) 12 hours
(C) 48 hours
(D) 72 hours

Ans :

(A) 24 hours
To be eligible for a claim under most health insurance policies, a minimum stay of 24 hours in a hospital is necessary. This requirement helps differentiate between major medical treatments requiring hospitalization and minor outpatient procedures. However, this time limit may not apply for treatments of accidental injuries or certain specified day-care procedures like cataract surgery.

Oct/Nov 2017

35. Under which section of the Income Tax Act are tax benefits for health insurance premiums provided?
(A) Section 80C
(B) Section 80G
(C) Section 80D
(D) Section 24B

Ans :

(C) Section 80D
The text states that there is an exclusive section in the Income Tax Act for health insurance tax benefits, which is Section 80D. This is distinct from Section 80C, which applies to life insurance

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Ans :

(C) It aims to place the insured in the same financial position as before the loss.
The Principle of Indemnity means 'making good the loss'. Its objective is to provide financial compensation to restore the insured to the same pecuniary position they enjoyed immediately before the loss occurred. This principle prevents the insured from profiting from an insurance claim and is a fundamental concept in property and general insurance, but not in life insurance.

May/June 2013

10. Which of the following insurance types is NOT considered a contract of indemnity?
(A) Life insurance
(B) Property insurance
(C) Personal accident insurance
(D) Marine insurance

Ans :

(A) Life insurance
Life insurance is not a contract of indemnity because it is impossible to place a financial value on human life. The insurer pays a pre-agreed sum assured upon the occurrence of the insured event (death), rather than compensating for an actual monetary loss. In contrast, property, personal accident, and other general insurance contracts are indemnity-based, reimbursing the actual financial loss.

Oct/Nov 2025

11. The Principle of Indemnity aims to control 'moral hazard'. Which of the following actions by an insured is an example of moral hazard?
(A) Paying the insurance premium on or before the specified due date.
(B) Taking necessary precautions to protect the insured property from damage.
(C) Informing the insurer about minor changes in the risk profile of the asset.
(D) Deliberately inflicting loss upon the insured property to seek compensation.

Ans :

(D) Deliberately inflicting loss upon the insured property to seek compensation.
Moral hazard refers to the risk that an insured party may change their behavior, often by taking more risks or acting dishonestly, because they have insurance coverage. Examples include deliberately causing a loss, exaggerating the extent of a loss, or making false claims in order to unfairly secure the maximum possible amount of compensation from the insurer.

May/June 2017

12. Mr. Rajesh owns a restaurant valued at Rs. 10 lakhs. He takes a fire insurance policy for a sum insured of Rs. 8 lakhs. A fire causes a loss of Rs. 6 lakhs. Based on the principle of indemnity and the concept of under-insurance, what amount of compensation is the insurance company liable to pay?
(A) Rs. 6,00,000
(B) Rs. 4,80,000
(C) Rs. 8,00,000
(D) Rs. 10,00,000

Ans :

(B) Rs. 4,80,000
The compensation is calculated using the formula:

$$\text{Amount of Claim} = \frac{\text{Sum Insured}}{\text{Value of Insured Asset}} \times \text{Actual Loss}$$

In this case, the property was under-insured.
The calculation is

$$\frac{8,00,000}{10,00,000} \times 6,00,000$$

$$= 0.8 \times 6,00,000$$

$$= \text{Rs.}4,80,000$$

The insurer pays a proportionate amount of the loss.

Oct/Nov 2010

13. What right does the Principle of Subrogation grant to an insurer?
(A) The right to increase the premium mid-term if the underlying risk profile increases.
(B) The right to cancel the policy without notice immediately after a claim is filed.
(C) The right to sue a liable third party in the insured's name after claim payment.
(D) The right to share the financial loss with the insured in all possible circumstances.

Ans :

(C) The right to sue a liable third party in the insured's name after claim payment.
Subrogation is the restitution of the rights of the assured in favour of the insurer. After the insurer has indemnified the insured for a loss, it acquires

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the legal right to step into the shoes of the insured and pursue recovery from any third party who was responsible for that loss. This prevents the insured from being compensated twice.

May/June 2009

14. After Mr. Kishore's car was damaged by a negligent lorry driver and his insurance company paid for the repairs, what happens to Mr. Kishore's right to take legal action against the lorry owner?

(A) Mr. Kishore can still sue the lorry owner for additional compensation beyond the repair cost.
(B) Mr. Kishore must share any subsequent legal recovery with the insurance company.
(C) Mr. Kishore can sue the lorry owner only after receiving written permission from the insurer.
(D) Mr. Kishore's right of action is transferred to the insurance company.

Ans :

(D) Mr. Kishore's right of action is transferred to the insurance company.
As per the principle of subrogation, once the insurer has indemnified Mr. Kishore for the loss, Mr. Kishore's right to sue the at-fault third party (the lorry owner) is extinguished. This right is transferred to the insurance company, which can then pursue the lorry owner to recover the amount it paid out in the claim.

Oct/Nov 2006

15. The Principle of Contribution is applicable under which specific circumstance?

(A) When the same subject matter is insured against the same peril with multiple insurers.
(B) When a single asset is insured for a very high value with only one insurer.
(C) When the insured has multiple, different types of assets insured with one insurer.
(D) When the loss is primarily caused by the direct negligence of a third party.

Ans :

(A) When the same subject matter is insured against the same peril with multiple insurers.
The Principle of Contribution applies when an insured has taken out more than one insurance policy on the same subject matter from different insurers. It gives an insurer the right to call upon other liable insurers to share the cost of an indemnity payment. This ensures that the total compensation paid does not exceed the actual loss suffered.

May/June 2022

16. If an asset is insured equally by two different insurance companies and a loss occurs, how is the compensation typically shared between them?

(A) The first insurer the claim is reported to is obligated to pay the full amount.
(B) Each insurer has to contribute half of the total compensation amount.
(C) The insured has the right to claim the full loss amount from both insurers separately.
(D) The insurer with the larger market share is required to pay the majority of the claim.

Ans :

(B) Each insurer has to contribute half of the total compensation amount.
According to the principle of contribution, when two or more insurers cover the same asset, they share the loss in proportion to the sum they have each insured. If they cover the asset equally, as in the example provided, each insurer is liable to contribute half of the compensation amount, ensuring the claim is shared fairly among them.

Oct/Nov 2016

17. In insurance, what does the term 'Proximate Cause' refer to?

(A) The very last event that occurred immediately before the loss was discovered.
(B) The direct, dominant, operative, and efficient cause of the loss.
(C) Any remote or indirect cause that contributed in a minor way to the loss.
(D) The first event in a long chain of causation that ultimately led to the loss.

Ans :

(B) The direct, dominant, operative, and efficient cause of the loss.
The principle of proximate cause states that the insurer is liable only if the loss is caused by an insured peril that is the direct, dominant, and efficient cause of the loss. It is not necessarily the nearest cause in time (the latest cause) but the most powerful and effective cause that sets the chain of events in motion.

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May/June 2015

18. A house with fire insurance experiences a fire, which causes a water pipe to burst, leading to significant water damage. Is the claim for water damage payable under the fire policy?

(A) Yes, because the fire was the proximate cause that led to the pipe bursting.
(B) No, because the immediate cause of the damage was water, not fire.
(C) Only 50% of the water damage is payable as it was an indirect loss.
(D) No, because water damage is a standard exclusion in all fire policies.

Ans :

(A) Yes, because the fire was the proximate cause that led to the pipe bursting.
In this scenario, the fire is the proximate cause of the loss. The bursting of the water pipe and the subsequent water damage were a direct consequence of the fire. As the dominant and efficient cause of the entire incident was fire (an insured peril), the resulting water damage would be considered a justifiable claim under the fire insurance policy.

Oct/Nov 2023

19. Which statement accurately distinguishes between life and general insurance?

(A) The insured event in life insurance may or may not happen, whereas in general insurance it is certain to occur.
(B) A life insurance contract is typically a one-year renewable contract, while general insurance is always long-term.
(C) The financial value of life is difficult to determine, whereas an asset's value in general insurance can be determined.
(D) Life insurance is primarily a contract of indemnity, while general insurance is strictly a contract of benefit.

Ans :

(C) The financial value of life is difficult to determine, whereas an asset's value in general insurance can be determined.
A key difference is the valuation of the subject matter. In general insurance, the financial value of an asset like a car or building can be precisely determined. In life insurance, it is difficult to ascertain the economic or financial value of a human life, which is why it is not a contract of indemnity but a benefit policy.

May/June 2019

20. How are premiums for life insurance and general insurance policies typically calculated?

(A) Life premiums are based on loss experience, while general premiums are based on mortality tables.
(B) Both are calculated from fixed tariff plans set by a government regulatory body.
(C) Both are calculated primarily from the insured's declared income and savings habits.
(D) Life premiums are based on mortality tables, while general premiums are based on loss experience.

Ans :

(D) Life premiums are based on mortality tables, while general premiums are based on loss experience.
The basis for premium calculation differs significantly. Life insurance premiums are determined using mortality tables, which predict life expectancy based on age and other factors. General insurance premiums are calculated based on past loss experience for similar risks, probable risk factors associated with the specific asset, and sometimes a fixed tariff plan.

Oct/Nov 2007

21. Which of the following is NOT one of the three main classes of life insurance benefit patterns?

(A) Term life insurance
(B) Whole life insurance
(C) Universal life insurance
(D) Endowment insurance

Ans :

(C) Universal life insurance
The text specifies three primary classes of life insurance benefit patterns: term life insurance, whole life insurance, and endowment insurance. While universal life policies are mentioned as a type of policy that can function like whole life insurance, they are not listed as one of the three fundamental classes of benefit patterns.

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May/June 2021

22. What is the defining characteristic of a Term Insurance Plan?

(A) It provides protection for the entire lifetime of the insured with a guaranteed cash value.

(C) Form 141
(D) Form 51

Ans :

(D) Form 51
The text specifies that under Rule 141 of the Central Motor Vehicle Rules 1989, a separate Certificate of Insurance is required to be issued by insurers for motor vehicle insurance. This certificate must be issued only in Form 51 and is a legal document that should always be carried in the vehicle as proof of insurance.

Oct/Nov 2020

41. What is the primary purpose of package policies like Householders Policy or Shopkeepers Policy?
(A) To provide only fire insurance for multiple properties under a single policy document.
(B) To insure only the contents of a property, specifically excluding the building structure.
(C) To provide only public liability cover for homeowners and commercial shopkeepers.
(D) To offer a combination of different insurance covers under a single document.

Ans :

(D) To offer a combination of different insurance covers under a single document.
Package or umbrella covers, such as Householders Policy and Shopkeepers Policy, are designed to provide convenience by combining several types of insurance protection under a single policy document. These policies typically seek to cover various physical assets like buildings and contents, and may also include certain personal lines or liability covers, offering a comprehensive solution.

May/June 2006

42. The text on "Fire Policy Exclusions" mentions that certain perils are usually excluded but can be covered on payment of additional premium. Which of the following perils falls into this category?
(A) War and warlike operations
(B) Earthquake
(C) Nuclear perils
(D) Pollution or contamination

Ans :

(B) Earthquake
The section on Fire Policy Exclusions states that loss or damage from war, nuclear perils, and pollution are typically excluded. However, it specifically mentions that certain perils like earthquake and spontaneous combustion can be covered on payment of additional premium. This indicates that coverage for earthquake risk can be added to a standard fire policy as an extension.

Oct/Nov 2009

43. What is a key condition mentioned for a Burglary Insurance policy regarding the sum insured?
(A) The sum insured must be at least 10% higher than the total property value.
(B) The sum insured is automatically increased by a fixed 10% each policy year.
(C) If the sum insured is not adequate, the policy pays only a proportionate loss.
(D) The sum insured for cash must be kept in an unlocked drawer to be valid.

Ans :

(C) If the sum insured is not adequate, the policy pays only a proportionate loss.
A crucial aspect of burglary insurance is ensuring the property is correctly valued and insured. The text highlights that if the sum insured is not adequate (i.e., there is under-insurance), the policy will only pay a proportionate loss. This means the insured must bear a portion of the loss themselves, reinforcing the need for accurate valuation.

May/June 2005

44. In the context of insurance claims, what does the term 'Salvage' refer to?
(A) The premium amount refunded to the policyholder upon claim settlement or policy cancellation.
(B) The various legal and investigative fees incurred by the insurer during the claim validation process.
(C) An additional ex-gratia amount paid to the insured for emotional distress or inconvenience caused.
(D) The partly damaged property that becomes the insurer's property after a total loss claim is paid.

Ans :

(D) The partly damaged property that becomes the insurer's property after a total loss claim is paid.
When a claim for a damaged asset (like a car or machinery) is settled on a Total Loss Basis, the

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promises to pay the full face amount at the end of the term if the insured is still alive, thus providing a survival benefit.

Oct/Nov 2022

27. Which statement about 'Without Profit' life insurance policies is correct?

(A) They are the most popular type of policy in India for long-term savings purposes.
(B) The premium rate charged for these policies is higher than for 'With Profit' plans.
(C) They allow policyholders to participate directly in the insurer's investment decisions.
(D) The policyholder does not receive any share of the insurer's surplus.

Ans :

(D) The policyholder does not receive any share of the insurer's surplus.
'Without Profit' policies are non-participating plans. This means the policyholder is not entitled to any share of the profits or surplus generated by the insurance company. As a result of this non-participation, the premium rates for these policies are typically lower than those for comparable 'With Profit' or participating plans.

May/June 2016

28. How does a Money Back Plan differ from a standard Endowment Plan?

(A) A Money Back Plan returns a percentage of the sum assured periodically during the policy term.
(B) A Money Back Plan only pays a benefit upon the confirmed death of the insured.
(C) A Money Back Plan offers a significantly lower life risk cover than an Endowment Plan.
(D) A Money Back Plan does not have any maturity value payable at the end of the term.

Ans :

(A) A Money Back Plan returns a percentage of the sum assured periodically during the policy term.
The key feature of a Money Back Plan is the payment of survival benefits. Under this plan, a certain percentage of the sum assured is paid back to the insured at regular intervals during the policy term. Despite these periodic payments, the life risk cover for the full sum assured usually continues throughout the term.

Oct/Nov 2015

29. In a Deferred Annuity plan, what option does the policyholder have on the vesting date regarding the accumulated corpus?

(A) To withdraw the entire corpus fund tax-free, which is then treated as regular income.
(B) To use the entire corpus fund to purchase an immediate annuity from the same insurer.
(C) To encash up to $\frac{1}{3}$ of the corpus tax-free and use the balance to purchase an annuity.
(D) To convert the entire corpus into a single premium life policy with new medical underwriting.

Ans :

(C) To encash up to $\frac{1}{3}$ of the corpus tax-free and use the balance to purchase an annuity.
Under a deferred annuity plan, upon reaching the vesting age or date, the policyholder has a specific option for the accumulated fund. They can encash, or 'commute', up to $\frac{1}{3}$ of the total corpus fund as a tax-free lump sum. The remaining $\frac{2}{3}$ of the fund must be utilized to purchase an annuity plan for regular pension payments.

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May/June 2007

30. What is the primary characteristic of a Unit Linked Insurance Policy (ULIP)?

(A) It offers a guaranteed, fixed rate of return on the investment portion of the premium.
(B) Its value is linked to the performance of underlying investment funds chosen by the policyholder.
(C) It exclusively provides life protection with no savings or investment component included.
(D) Premiums are invested solely in government securities to ensure absolute capital safety.

Ans :

(B) Its value is linked to the performance of underlying investment funds chosen by the policyholder.
A Unit Linked Insurance Policy (ULIP) is a hybrid product that combines insurance protection with investment. The premium paid is used to provide life cover and to purchase units in various investment funds (e.g., equity, debt). The value of the policy is directly linked to the performance of these funds, offering varying degrees of risk and reward.

Oct/Nov 2021

5. What is the consequence if an insured unintentionally fails to disclose a material fact in an insurance application?
(A) The contract is automatically considered void and fraudulent from inception.
(B) The premium paid by the insured is immediately forfeited to the insurer.
(C) The contract is rendered voidable at the insurer's option upon discovery.
(D) The insured is subject to a financial penalty but the contract remains valid.

Ans :

(C) The contract is rendered voidable at the insurer's option upon discovery.
The principle of utmost good faith requires full disclosure of material facts. If non-disclosure is unintentional, the contract becomes 'voidable' at the option of the insurer. This means the insurer can choose to either continue the contract or refuse any claim and void the policy. Intentional non-disclosure, however, amounts to fraud, making the contract void.

May/June 2011

6. Which of the following would be considered a 'material fact' that must be disclosed in a life insurance application?
(A) The applicant's preferred holiday destination and travel habits.
(B) The applicant's personal and family health history.
(C) The applicant's political affiliations and voting record.
(D) The make and model of the applicant's primary vehicle.

Ans :

(B) The applicant's personal and family health history.
In life and health insurance, material facts are those that would influence an insurer's decision to accept the risk and determine the premium. These include the applicant's age, income, health status, personal and family medical history, habits, and occupation. Details like holiday preferences or political views are not considered material to assessing the life or health risk.

Oct/Nov 2009

7. The principle of 'Insurable Interest' implies that the policyholder must have what kind of interest in the subject matter of insurance?
(A) A purely sentimental or emotional interest.
(B) A casual, temporary, or indirect interest.
(C) A potential future or prospective interest only.
(D) A pecuniary or monetary interest.

Ans :

(D) A pecuniary or monetary interest.
Insurable interest is the legal right to insure, which arises from a recognized financial relationship between the insured and the subject matter. The policyholder must have a pecuniary or monetary interest, meaning that they would suffer a direct financial loss if the insured property is damaged or destroyed. Without this financial stake, the insurance contract would be a mere wager.

May/June 2020

8. In the context of life insurance, in which of the following relationships is insurable interest deemed to exist based on sentiment?
(A) Between a husband and a wife.
(B) Between two unrelated business partners.
(C) Between a creditor and a debtor.
(D) Between an employer and a key employee.

Ans :

(A) Between a husband and a wife.
While insurable interest is typically based on a pecuniary relationship, in life insurance it is also deemed to exist in certain relationships based on love, affection, and sentiment. The relationship between a husband and wife, as well as that between a parent and child, are primary examples where insurable interest is presumed to exist without needing to prove a direct financial dependency.

Oct/Nov 2014

9. Which of the following statements correctly describes the Principle of Indemnity?
(A) It ensures the insured makes a financial profit from the loss event.
(B) It applies to all types of insurance, including life and personal accident policies.
(C) It aims to place the insured in the same financial position as before the loss.
(D) It allows the insured to claim the full sum insured regardless of the actual loss.

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and various other investments. Section 80D allows for a deduction from taxable income for premiums paid towards a health insurance policy.

May/June 2014

36. Which of the following is a risk typically covered by a Travel Insurance policy?

(A) Loss of potential business profits due to a cancelled trip.
(B) Loss of passport and unexpected medical expenditure.
(C) Pre-existing diseases without specific declaration and coverage.
(D) Change of mind by the traveller leading to trip cancellation.

Ans :

(B) Loss of passport and unexpected medical expenditure.
Travel insurance is designed to protect a policyholder against travel-related contingencies. The scope of coverage typically includes protection against travel accidents, unexpected medical expenses incurred during travel, losses such as baggage loss or loss of passport, and costs arising from trip interruption or delays in flights or baggage arrival.

Oct/Nov 2008

37. What are the two primary types of coverage offered by motor insurance policies in India?

(A) Fire Only Policy and Theft Only Policy
(B) Personal Accident Policy and Vehicle Damage Policy
(C) Domestic Travel Policy and International Travel Policy
(D) Liability Only Policy and Comprehensive Policy

Ans :

(D) Liability Only Policy and Comprehensive Policy
Motor insurance in India is broadly offered through two types of policies. The first is the 'Liability Only Policy', which is a statutory requirement and covers legal liability to third parties. The second is the 'Comprehensive Policy', which provides wider coverage by including both third-party liability and 'Own Damage' (O.D.) cover for the insured's vehicle.

May/June 2025

38. Under the Motor Vehicles Act, 1988, what is the status of Third-Party Liability Insurance for all vehicles plying on public roads in India?

(A) It is a statutory requirement for all vehicles.
(B) It is optional for private vehicles but mandatory for commercial vehicles.
(C) It is a recommended but not legally required cover.
(D) It is only required for vehicles older than five years.

Ans :

(A) It is a statutory requirement for all vehicles.
The text clearly states that Third-Party Insurance is a statutory requirement. Driving a motor vehicle in a public place without this mandatory insurance is a punishable offense under the terms of the Motor Vehicles Act, 1988. This insurance covers the vehicle owner's legal liability for injury, death, or property damage caused to a third party.

Oct/Nov 2013

39. According to the list of "Motor Insurance Exclusions," which of the following contingencies would lead to the rejection of a claim?

(A) Damage to the vehicle directly caused by a flood or storm.
(B) Theft of the vehicle from the owner's locked residence.
(C) An accident that occurs while the driver is under the influence of intoxicating liquor.
(D) Damage caused by a malicious act from an external, unrelated source.

Ans :

(C) An accident that occurs while the driver is under the influence of intoxicating liquor.
The text explicitly lists several exclusions under a standard motor insurance policy. One of these is an accident that takes place while the driver is under the influence of intoxicating liquor or drugs. This is considered a breach of policy conditions, and any claim arising from such an incident would typically be excluded from coverage.

May/June 2018

40. As per the Central Motor Vehicle Rules 1989, in which form must the Certificate of Insurance for a motor vehicle be issued?

(A) Form 29
(B) Form 16

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(B) It furnishes protection for a limited number of years and has no maturity value.
(C) It pays a guaranteed maturity value if the insured person survives the policy term.
(D) It offers a combination of investment returns and flexible premium payments.

Ans :

(B) It furnishes protection for a limited number of years and has no maturity value.
A term insurance plan is designed to provide pure life protection for a specified, limited period (e.g., 10, 20 years, or up to a certain age). The face amount is payable only if the insured's death occurs during this stipulated term. If the insured survives the term, the policy terminates without any maturity or survival benefit being paid.

Oct/Nov 2011

23. The 'Buy Term and Invest the Difference' (BTID) strategy involves which combination of actions?
(A) Buying a whole life policy and a separate mutual fund with the remaining capital.
(B) Buying an endowment policy and topping it up with a supplementary term rider.
(C) Buying a low-cost term insurance policy and investing the premium savings elsewhere.
(D) Buying a ULIP and actively switching between the available equity and debt funds.

Ans :

(C) Buying a low-cost term insurance policy and investing the premium savings elsewhere.
The 'Buy Term and Invest the Difference' (BTID) arrangement is a financial strategy where an individual purchases a relatively inexpensive term insurance policy for their protection needs. The money saved by not buying a more expensive cash-value policy (like endowment or whole life) is then invested separately, with the hope that the combined return will outperform the cash value policy.

May/June 2012

24. Which type of life insurance policy is specifically intended to provide insurance protection over one's entire lifetime?
(A) Term Insurance Policy
(B) Endowment Insurance Policy
(C) Money Back Policy
(D) Whole Life Insurance Policy

Ans :

(D) Whole Life Insurance Policy
Whole life insurance is designed to provide coverage for the insured person's entire life. It guarantees payment of the policy's face amount upon the insured's death, regardless of when it occurs, as long as the premiums have been duly paid. Unlike term insurance, it does not expire after a specific number of years.

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Oct/Nov 2024

25. In the context of life insurance policies in India, what does a 'With Profit' policy entitle the policyholder to?
(A) A guaranteed fixed annual bonus irrespective of the insurer's actual performance.
(B) A significantly lower premium rate compared to 'Without Profit' policy options.
(C) Participation in the profits or surplus of the insurer, usually as a bonus.
(D) The ability to take policy loans at a zero percent interest rate from the insurer.

Ans :

(C) Participation in the profits or surplus of the insurer, usually as a bonus.
'With Profit' policies, also known as participating plans, allow the policyholder to share in the surplus (profits) of the insurance company. This surplus is determined through periodical valuations and is typically distributed to policyholders in the form of a bonus, which is paid out along with the contracted amount at maturity or on death.

May/June 2008

26. What is the dual benefit offered by an Endowment Insurance Policy?
(A) It pays the face amount on death and also provides a lifetime pension to the nominee.
(B) It pays the face amount on death during the term or if the insured survives the term.
(C) It covers both natural and accidental death with double the original sum assured.
(D) It provides a regular income during the policy term and a lump sum at the end.

Ans :

(B) It pays the face amount on death during the term or if the insured survives the term.
An endowment policy is a combination of insurance and savings. It promises to pay the full face amount of the policy if the insured dies during a fixed term of years. Additionally, it also

wreck or the partly damaged goods are referred to as 'Salvage'. After the insurer pays the full claim amount, the ownership of this salvage transfers to the insurance company, which can then dispose of it to recover some of its loss.

Oct/Nov 2012

45. What is the primary advantage of a Group Insurance Scheme?
(A) It covers a group under a single master policy, often at a lower administrative cost.
(B) It allows individual members of the group to extensively customize their coverage options.
(C) It guarantees a high, fixed rate of investment return for every member of the group.
(D) It requires a detailed medical examination for every individual applying to join the group.

Ans :

(A) It covers a group under a single master policy, often at a lower administrative cost.
Group insurance covers multiple people under a single contract, known as a 'Master Policy'. A key benefit is the lower cost, which is achieved through savings in administrative expenses and often by forgoing individual medical examinations. The underwriting is done for the group as a whole, aiming for an average rate of mortality or morbidity.

May/June 2024

46. According to the IRDAI Micro-Insurance Regulations, 2005, what is the maximum sum assured for a policy to be defined as a 'micro-insurance' policy?
(A) Rs. 1,00,000 or less
(B) Rs. 50,000 or less
(C) Rs. 75,000 or less
(D) Rs. 25,000 or less

Ans :

(B) Rs. 50,000 or less
Micro-insurance is a key component of financial inclusion, designed to provide affordable insurance to low-income sections of society. The IRDAI Micro-Insurance Regulations, 2005, provide a specific definition: a micro-insurance policy is a general or life insurance policy where the sum assured is Rs. 50,000 or less, catering to the needs of this target segment.

Oct/Nov 2021

47. The chapter outlines different types of micro-insurance products. Which of the following is listed as a potential life micro-insurance product?
(A) A contract covering belongings such as huts or livestock.
(B) A health insurance contract covering hospitalization.
(C) A contract covering business tools or instruments.
(D) An endowment insurance contract.

Ans :

(D) An endowment insurance contract.
The text categorizes micro-insurance products into general and life categories. While contracts covering huts, livestock, tools, and health fall under general micro-insurance, the text explicitly states that a life micro-insurance product can be "A term insurance contract with or without return of premium, or Any endowment insurance contract," which can be offered on an individual or group basis.

May/June 2011

48. What is the eligible age group for enrolling in the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)?
(A) 18 to 70 years
(B) 18 to 50 years
(C) 21 to 60 years
(D) 18 to 55 years

Ans :

(B) 18 to 50 years
The Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) is a government-backed life insurance scheme. It is available to people in the age group of 18 to 50 years who have a bank or post office account and provide consent for auto-debit of the premium. Entry into the scheme is not possible beyond the age of 50.

Oct/Nov 2018

49. What is the annual premium and life cover amount under the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)?
(A) Premium Rs. 20; Cover Rs. 2 lakhs
(B) Premium Rs. 436; Cover Rs. 2 lakhs
(C) Premium Rs. 436; Cover Rs. 1 lakh
(D) Premium Rs. 330; Cover Rs. 5 lakhs

Ans :

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take recourse to the normal process of law.
(B) The award is legally binding on all parties, and the complainant must accept it.
(C) The complainant can appeal the award to a higher authority within the Ombudsman scheme.
(D) The complainant forfeits all rights to any further legal action against the insurer.

Ans :

(A) The complainant can reject the award and take recourse to the normal process of law.
The acceptance of an award from the Insurance Ombudsman is voluntary for the complainant. If the award is deemed unacceptable, the complainant is free to reject it. Rejecting the award does not prevent the complainant from exercising their right to seek legal remedy through other channels, such as consumer forums or civil courts.

Oct/Nov 2022

69. Match the insurance principle in List-I with its correct description in List-II.

	List-I (Principle)		**List-II (Description)**
P.	Subrogation	1.	The direct and dominant cause of loss
Q.	Indemnity	2.	Duty to disclose all material facts
R.	Proximate Cause	3.	Placing the insured in the pre-loss financial position
S.	Uberrimae Fidei	4.	Insurer's right to pursue a liable third party

(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-3, R-1, S-4

Ans :

(A) P-4, Q-3, R-1, S-2
Subrogation (P) is the insurer's right to sue a responsible third party (4). Indemnity (Q) is the principle of restoring the insured to their pre-loss financial state (3). Proximate Cause (R) refers to the direct, dominant cause of the loss (1). Uberrimae Fidei (S) is the principle of utmost good faith, requiring full disclosure of material facts (2).

May/June 2016

70. Consider the following statements regarding the Insurance Ombudsman Scheme:
1. A complaint can be lodged only through a written, signed representation.
2. The Ombudsman can award compensation up to Rs. 50 lakhs.
3. No fees or charges are required to be paid for lodging a complaint.
4. The Ombudsman must pass an award within 6 months of receiving all requirements.

Which of the above statements is/are correct?
(A) 1 and 4 only
(B) 3 only
(C) 2 and 3 only
(D) 1, 2, and 4

Ans :

(B) 3 only
Statement 1 is incorrect as complaints can also be made via email or online. Statement 2 is incorrect as the maximum award is Rs. 30 lakhs. Statement 4 is incorrect as the time limit for an award is 3 months. Statement 3 is correct; the text explicitly states that no fees/charges are required to be paid.

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Ans :

(A) Rs. 1 lakh for partial disability.
The Pradhan Mantri Suraksha Bima Yojana (PMSBY) has specific definitions for disability. Full disability is defined as the loss of use of both eyes, hands, or feet. Partial disability is defined as the loss of use in one eye, hand, or foot. In this case, the loss of one hand qualifies as partial disability, making him eligible for Rs. 1 lakh.

Oct/Nov 2010

55. What is the annual premium for the Pradhan Mantri Suraksha Bima Yojana (PMSBY)?
(A) Rs. 436
(B) Rs. 330
(C) Rs. 100
(D) Rs. 20

Ans :

(D) Rs. 20
The PMSBY scheme is designed to be highly affordable. The premium for the accident cover provided under this scheme is only Rs. 20 per annum. This amount is deducted from the account holder's bank or post office account through an 'auto-debit' facility in a single instalment for the coverage period.

May/June 2009

56. What is the primary definition of 'Bancassurance'?
(A) The process of banks providing comprehensive insurance for their own assets and liabilities.
(B) The selling of insurance products through the distribution channels of a bank.
(C) A formal merger between a large commercial bank and a large insurance company.
(D) The business of banks providing long-term loans and credit to insurance companies.

Ans :

(B) The selling of insurance products through the distribution channels of a bank.
Bancassurance is defined as the selling of insurance products through banks. It involves a partnership between a bank and an insurance company where the bank uses its customer base and branch network to distribute the insurer's products. This model aims to exploit the synergies between the two financial entities for mutual benefit.

Oct/Nov 2006

57. The commencement of bancassurance in India in the year 2000 was enabled by a government notification under which act?
(A) The IRDA Act, 1999
(B) The Insurance Act, 1938
(C) The Companies Act, 2013
(D) The Banking Regulation Act, 1949

Ans :

(D) The Banking Regulation Act, 1949
The text states that bancassurance in India began in the year 2000 after the Government of India issued a notification specifying 'Insurance' as a permissible form of business for banks under Section 6(1)(o) of the Banking Regulation Act, 1949. This was followed by detailed guidelines from the RBI, formally allowing banks to enter the insurance distribution business.

May/June 2022

58. According to RBI guidelines from August 2000, what is the primary way a scheduled commercial bank can undertake insurance business without risk participation?
(A) By acting as an agent of insurance companies on a fee basis.
(B) By setting up a joint venture insurance company with an insurer.
(C) By acquiring a majority equity stake in an existing insurance company.
(D) By creating and underwriting its own proprietary insurance products.

Ans :

(A) By acting as an agent of insurance companies on a fee basis.
The RBI guidelines issued in August 2000 permitted scheduled commercial banks to enter the insurance business in two ways. The first and most common method, which involves no risk participation for the bank, is to act as a corporate agent for one or more insurance companies on a fee or commission basis.

Oct/Nov 2016

59. Which of the following is an advantage for a bank engaging in bancassurance?
(A) A requirement of significant additional capital investment for underwriting risk.
(B) An increased administrative burden with no improvement in overall productivity.
(C) Earning risk-free non-interest income

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(B) Premium Rs. 436; Cover Rs. 2 lakhs
The PMJJBY scheme provides a life cover of Rs. 2 lakhs for death due to any reason. The premium for this coverage is Rs. 436 per annum. This amount is auto-debited in one instalment from the subscriber's bank or post office account on or before 31st May for the annual coverage period from 1st June to 31st May.

May/June 2020

50. Under PMJJBY, the life cover is deemed to be terminated if the insured attains which age, subject to annual renewal up to that date?
(A) 55 years
(B) 50 years
(C) 60 years
(D) 70 years

Ans :

(A) 55 years
While entry into the PMJJBY scheme is restricted to the age of 50, the life cover can continue beyond that. The scheme and the accompanying life cover are considered terminated once the insured person attains the age of 55 years. The cover is subject to annual renewal through premium payment up until that age.

Oct/Nov 2014

51. A 45-year-old individual is enrolled in PMJJBY. He diligently renews the policy every year. At what age will his coverage under this scheme cease, assuming he maintains a sufficient balance in his bank account?
(A) The coverage will cease immediately upon his attainment of age 50.
(B) The coverage will continue until he reaches the age of 60.
(C) The coverage will cease upon his attainment of age 55.
(D) The coverage will continue for his entire lifetime without any age limit.

Ans :

(C) The coverage will cease upon his attainment of age 55.
According to the rules of the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), while the entry age is up to 50 years, the risk cover continues upon annual renewal until the member attains the age of 55. Therefore, even though he enrolled at 45, his coverage will be terminated upon reaching 55 years of age.

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May/June 2013

52. What is the risk coverage provided under the Pradhan Mantri Suraksha Bima Yojana (PMSBY)?
(A) Rs. 2 lakhs for death due to any cause, including natural death.
(B) Rs. 5 lakhs for accidental death only, with no benefit for disability.
(C) Rs. 1 lakh for accidental death and Rs. 50,000 for any type of disability.
(D) Rs. 2 lakhs for accidental death and full disability; Rs. 1 lakh for partial disability.

Ans :

(D) Rs. 2 lakhs for accidental death and full disability; Rs. 1 lakh for partial disability.
The Pradhan Mantri Suraksha Bima Yojana (PMSBY) is an accident insurance scheme. It provides a risk coverage of Rs. 2 lakhs in the event of the insured's accidental death or full disability. For partial disability resulting from an accident, the coverage amount provided under the scheme is Rs. 1 lakh.

Oct/Nov 2025

53. Which of the following causes of death is explicitly NOT covered under the Pradhan Mantri Suraksha Bima Yojana (PMSBY)?
(A) Death in a documented road accident.
(B) Death due to a fall from a significant height.
(C) Death due to suicide.
(D) Death due to an accident at the workplace.

Ans :

(C) Death due to suicide.
PMSBY is an accident insurance scheme, and its coverage is limited to death or disability resulting from an accident. The text explicitly states that certain events are not covered, which include death due to suicide, alcohol consumption, or drug abuse. These are specific exclusions under the terms and conditions of the scheme.

May/June 2017

54. A person covered under PMSBY meets with an accident and suffers an irrecoverable loss of use of one hand. What compensation is he eligible to receive under the scheme?
(A) Rs. 1 lakh for partial disability.
(B) Rs. 2 lakhs for full disability.
(C) No compensation, as only loss of two limbs is covered.
(D) 50% of his medical expenses up to Rs. 2 lakhs.

with the Ombudsman only after the insurer has rejected the complaint, failed to reply within one month, or provided an unsatisfactory reply.

May/June 2021

64. The Insurance Ombudsman Rules aim at resolving complaints for all the following, EXCEPT:

(A) Policies issued to sole proprietorships and micro enterprises.
(B) Personal lines of insurance such as motor and health.
(C) Group insurance policies issued to various entities.
(D) Large corporate insurance policies for multinational companies.

Ans :

(D) Large corporate insurance policies for multinational companies.
The scope of the Insurance Ombudsman scheme is clearly defined. It aims to resolve complaints relating to personal lines of insurance, group insurance policies, and policies issued to sole proprietorship and micro enterprises. It is not intended as a forum for disputes arising from large commercial or corporate insurance policies taken by major corporations.

Oct/Nov 2011

65. An individual's health insurance claim was rejected by the insurer on June 15, 2022. The insurer sent a final rejection letter on June 20, 2022. What is the latest date by which the individual can approach the Insurance Ombudsman?

(A) June 19, 2023
(B) July 20, 2022
(C) June 15, 2024
(D) December 20, 2022

Ans :

(A) June 19, 2023
The rules state that a complaint to the Ombudsman must be made not later than one year after the insurer had replied to the complainant's representation. Since the final reply (rejection letter) was sent on June 20, 2022, the complainant has one year from that date to approach the Ombudsman. Therefore, the last day would be June 19, 2023.

May/June 2012

66. A complaint regarding which of the following grounds can be filed with the Insurance Ombudsman?

(A) Disagreement with the premium rates for a newly launched product category.
(B) Delay in settlement of claims beyond the time specified in regulations.
(C) The overall financial performance or solvency ratio of the insurance company.
(D) General suggestions for improving the insurer's customer service protocols.

Ans :

(B) Delay in settlement of claims beyond the time specified in regulations.
The Insurance Ombudsman Rules list specific grounds on which a complaint can be filed. These relate to deficiencies in the insurer's performance. One of the primary grounds mentioned is delay in settlement of claims, beyond the time specified in the regulations, along with claim repudiation, premium disputes, and misrepresentation of policy terms.

Oct/Nov 2024

67. Who can approach the Insurance Ombudsman for redressal of a complaint?

(A) Only an individual who has taken a policy in their own name and is the sole beneficiary.
(B) Only third parties who are affected by the actions of the insured person.
(C) Only insurance agents or brokers acting on behalf of their clients.
(D) Any individual, including their legal heirs, nominee, or assignee.

Ans :

(D) Any individual, including their legal heirs, nominee, or assignee.
The scheme allows any aggrieved individual who has taken an eligible insurance policy to approach the Ombudsman. This right is not limited to the policyholder alone. In their absence or stead, their legal heirs, nominee, or assignee can also approach the Ombudsman for the redressal of the complaint on behalf of the policyholder.

May/June 2008

68. What happens if a complainant finds the award passed by the Insurance Ombudsman unacceptable?

(A) The complainant can reject the award and

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through commissions on policy sales.
(D) The need to hire a completely new and separate sales workforce for insurance.

Ans :

(C) Earning risk-free non-interest income through commissions on policy sales.
For banks, bancassurance provides a significant advantage by creating a new stream of risk-free, non-interest income. By acting as corporate agents, they earn commissions on the policies sold without bearing the underwriting risk. This improves their bottom line and return on assets (RoA) by utilising existing infrastructure and manpower, without requiring additional capital.

May/June 2015

60. The chapter mentions four internationally vogue models of Bancassurance. Which of the following pairs are the two models that have been adopted in India?
(A) The joint venture model and the complete merger model.
(B) The corporate agency model and the build or buy own insurance operation model.
(C) The complete merger model and the build or buy own insurance operation model.
(D) The corporate agency model and the joint venture model.

Ans :

(D) The corporate agency model and the joint venture model.
The text lists four international models: Corporate agency, Joint venture, Merger, and Build/buy own operation. It then explicitly states that in India, only the first two models have been adopted. This refers to the corporate agency (or distribution alliance) model and the joint venture model, where a bank and insurer share equity in a new company.

Oct/Nov 2023

61. What is the primary difference between a bank acting as a corporate agent versus an insurance broker?
(A) An agent represents the policyholder, while a broker represents the insurance company.
(B) An agent can sell products of multiple insurers, while a broker can only sell for one.
(C) There is no functional or legal difference between an agent and a broker in insurance.
(D) An agent represents the insurer, while a broker represents the policyholder.

Ans :

(D) An agent represents the insurer, while a broker represents the policyholder.
A key distinction lies in whom they represent. A corporate agent has a contractual arrangement with an insurance company and represents the interests of that insurer. In contrast, an insurance broker has a fiduciary responsibility to their client, the policyholder. A broker is expected to represent the customer's interests by finding the most suitable product from multiple insurers.

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May/June 2019

62. What is the maximum monetary value of the award that an Insurance Ombudsman can pass?
(A) Rs. 10 lakhs
(B) Rs. 20 lakhs
(C) Rs. 50 lakhs
(D) Rs. 30 lakhs

Ans :

(D) Rs. 30 lakhs
The Insurance Ombudsman is empowered to redress customer grievances and can issue an award as part of the resolution. The pecuniary jurisdiction of the ombudsman is limited. The text specifies that an ombudsman can pass an award for compensation that does not exceed Rs. 30 lakhs, which includes any relevant expenses.

Oct/Nov 2007

63. Which of the following is a mandatory pre-condition for lodging a complaint with the Insurance Ombudsman?
(A) The complainant must have first made a representation to the concerned insurer.
(B) The complainant must first file a case in a designated consumer forum.
(C) The complaint must be made within two years of the insurer's final reply.
(D) The complaint must involve a claim amount exceeding Rs. 30 lakhs.

Ans :

(A) The complainant must have first made a representation to the concerned insurer.
A complainant cannot directly approach the Insurance Ombudsman. It is a mandatory pre-condition that the person must have first approached the concerned insurance company with their grievance. A complaint can be filed

CHAPTER 43
Pension Products

Oct/Nov 2013

1. According to the principles of financial planning for old age, what is the primary purpose of pension products?

(A) To provide a large, one-time corpus for high-risk speculative investments after retirement.

(B) To provide a regular income stream for financial support during post-retirement years.

(C) To exclusively fund critical medical emergencies and major unforeseen expenses post-retirement.

(D) To serve as a short-term, high-liquidity savings instrument for immediate cash needs.

Ans :

(B) To provide a regular income stream for financial support during post-retirement years.
Pension products are designed to provide a steady and supporting income stream after retirement. This regular income helps individuals maintain their lifestyle without compromising, covering living costs, medical needs, and other expenses, thereby ensuring financial independence in their non-productive years. This contrasts with lump-sum funds for speculation or short-term savings.

May/June 2024

2. Which of the following is NOT listed as a primary reason for the growing necessity of pensions in the modern context?

(A) A general decrease in the average cost of living.

(B) The rise of the nuclear family structure.

(C) Increased longevity of the population.

(D) Decreased income-earning potential with advancing age.

Ans :

(A) A general decrease in the average cost of living.
The necessity for pensions is amplified by a rise in the cost of living, not a decrease. Factors such as the breakdown of the joint family system into nuclear families, migration of earning members, increased life expectancy, and reduced earning capacity in old age make a regular pension income crucial for a dignified post-retirement life.

Oct/Nov 2009

3. How do pension products and life insurance products differ in the primary financial risks they address?

(A) Life insurance addresses the risk of living too long, while pension products address the risk of premature death.

(B) Both products primarily address the financial consequences of disability during one's earning years.

(C) Pension products address the risk of living too long, while life insurance protects against the financial impact of premature death.

(D) Pension products focus on wealth accumulation for heirs, while life insurance provides income during old age.

Ans :

(C) Pension products address the risk of living too long, while life insurance protects against the financial impact of premature death.
Pension products are designed to mitigate the financial risk of outliving one's savings, ensuring a steady income during old age. Conversely, life insurance is structured to provide financial protection to an individual's dependents in the event of their premature death, safeguarding the family's future. The two products address opposite longevity-related risks.

May/June 2016

4. In the context of pension products, what does the 'Accumulation stage' refer to?

(A) The post-retirement period when the annuitant begins to receive a steady, periodic flow of income.

(B) The specific stage where the pension fund's accumulated assets are systematically liquidated to pay out benefits.

NODIA

(C) The initial lock-in period, typically five years, where no withdrawals are permitted from the pension account.
(D) The period of active employment when an individual makes regular contributions to build a retirement corpus.

Ans :

(D) The period of active employment when an individual makes regular contributions to build a retirement corpus.
The accumulation stage is the period during an individual's working life when they make regular contributions to a pension plan. The objective of this phase is to systematically build a substantial corpus over time through consistent investments. This accumulated sum is then used to generate income during the post-retirement phase, also known as the vesting stage.

Oct/Nov 2022

5. What is the 'Vesting stage' in the operational cycle of a pension product?
(A) The pre-retirement stage where an individual makes scheduled, periodic payments into their pension account.
(B) The initial point at which an employee meets the eligibility criteria to join a specific pension scheme.
(C) The post-retirement phase when the accumulated corpus is used to provide a regular pension income.
(D) The investment management period during which the fund manager actively invests collected contributions in the market.

Ans :

(C) The post-retirement phase when the accumulated corpus is used to provide a regular pension income.
The vesting stage commences once an individual retires and the accumulation phase ends. During this stage, the corpus built up through years of contributions is utilized to provide a regular, steady income or pension to the individual for the rest of their life. It marks the transition from saving for retirement to receiving income from those savings.

May/June 2008

6. Which of the following are considered core functions that a pension product must perform efficiently?
Statement I: Reliable collection of contributions and other receipts.
Statement II: Timely and correct payment of benefits for each scheme.
Statement III: Productive investment of pension fund assets.
(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

Ans :

(D) All I, II, and III
An efficient pension product must competently perform several core functions. These include the reliable collection of all contributions, taxes, and loan payments; the accurate and timely disbursement of benefits; and the prudent financial management and productive investment of the fund's assets to ensure growth and sustainability for providing long-term retirement income to the members.

Oct/Nov 2018

7. Which of the following pension schemes is listed as a prevalent type available in India?
(A) Sovereign Gold Bond Scheme
(B) Senior Citizens Savings Scheme
(C) Pradhan Mantri Jeevan Jyoti Bima Yojana
(D) National Pension Scheme (NPS)

Ans :

(D) National Pension Scheme (NPS)
The National Pension Scheme (NPS) is one of the major pension schemes prevalent in India. It is specifically designed as a retirement savings instrument. The other options, while being government-backed savings or insurance schemes, are not categorized under the primary pension schemes discussed, which also include EPF, PPF, Insurance Annuity Schemes, and Atal Pension Yojana (APY).

May/June 2012

8. The Employees' Provident Fund Organisation (EPFO) manages a mandatory pension scheme for employees in specified economic sectors at firms with more than how many employees?
(A) 20 employees
(B) 10 employees
(C) 50 employees
(D) 100 employees

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Ans :

(A) 20 employees

The Employees' Provident Funds Scheme, managed by the EPFO, is a mandatory program established in 1952. It is applicable to employees working in specified economic sectors at firms that employ more than 20 individuals. This threshold ensures that a significant portion of the private sector workforce is covered under this social security net for their retirement.

Oct/Nov 2025

9. The schemes of the Employees' Provident Fund Organisation (EPFO) are administered by a tri-partite board. What is this board called?

(A) The Pension Fund Regulatory and Development Authority (PFRDA)
(B) The Securities and Exchange Board of India (SEBI)
(C) The Central Board of Trustees
(D) The Insurance Regulatory and Development Authority of India (IRDAI)

Ans :

(C) The Central Board of Trustees

The administration of EPFO schemes is overseen by the Central Board of Trustees. This is a tri-partite body, meaning it comprises representatives from the Government (both Central and State), employers, and employees. This structure ensures balanced governance and decision-making, reflecting the interests of all stakeholders involved in the provident fund system in India.

May/June 2005

10. The Employees' Provident Fund Organisation (EPFO) operates three major schemes for employees. Which of the following is NOT one of these three schemes?

(A) Employees' State Insurance Scheme (ESIS)
(B) Employees' Pension Scheme (EPS)
(C) Employees' Deposit Linked Insurance Scheme (EDLIS)
(D) Employees' Provident Fund Scheme (EPF)

Ans :

(A) Employees' State Insurance Scheme (ESIS)

The EPFO is responsible for administering three mandatory schemes: the Employees' Pension Scheme (EPS), the Employees' Deposit Linked Insurance Scheme (EDLIS), and the Employees' Provident Fund Scheme (EPF). The Employees' State Insurance Scheme (ESIS), which primarily covers medical benefits, is managed by a separate corporate body, the ESI Corporation, not the EPFO.

Oct/Nov 2014

11. Which of the following is a key function performed by the Employees' Provident Fund Organisation (EPFO)?

(A) Regulating the nation's equity and commodity markets and setting trading rules for brokers.
(B) Issuing legal tender currency and managing the country's overall monetary and credit policy.
(C) Providing new licenses for banking operations and supervising all scheduled commercial banks.
(D) Enforcing the EPF Act, managing claims, and investing the fund's assets productively.

Ans :

(D) Enforcing the EPF Act, managing claims, and investing the fund's assets productively.

The EPFO's primary functions include the nationwide enforcement of the Employees' Provident Fund and Miscellaneous Provisions Act, 1952. It is also responsible for maintaining individual member accounts, investing the collected funds productively, ensuring prompt pension payments, and settling various claims filed by the members, thereby acting as a comprehensive social security organization for its beneficiaries.

May/June 2019

12. What is the role of the EPFO in the context of international workers and social security?

(A) It has no official jurisdiction or defined role concerning international workers or their social security.
(B) Serving as the nodal agency for implementing Social Security Agreements (SSAs) with other nations.
(C) It only provides non-binding advisory services to Indian workers planning to work abroad.
(D) It actively restricts international workers from joining any form of Indian pension or social security scheme.

Ans :

(B) Serving as the nodal agency for implementing Social Security Agreements (SSAs) with other nations.

The EPFO plays a crucial role beyond domestic borders by acting as the nodal agency for the implementation of Bilateral Social Security Agreements (SSAs) with other nations. These agreements help in protecting the interests of Indian workers abroad and foreign nationals working in India by providing for portability of social security benefits and avoiding double contributions.

Oct/Nov 2006

13. What is the Universal Account Number (UAN) introduced by the EPFO?

(A) A permanent 10-digit alphanumeric number required for all income tax filing purposes.
(B) A unique 16-digit number issued by banks for accessing net banking and ATM services.
(C) A unique 12-digit number linking an employee's multiple EPF Member IDs under one profile.
(D) A unique 8-digit number assigned by an insurer for processing health or life insurance claims.

Ans :

(C) A unique 12-digit number linking an employee's multiple EPF Member IDs under one profile.

The Universal Account Number (UAN) is a unique 12-digit number assigned by the EPFO to each contributing employee. Its primary purpose is to act as a portable, permanent number that links an individual's multiple EPF accounts (Member IDs) from different employers. This simplifies account management and transfer, making the system more hassle-free for employees.

May/June 2021

14. The Universal Account Number (UAN) programme was launched in October 2014 as part of which government initiative?

(A) Pradhan Mantri Jan Dhan Yojana
(B) Make in India
(C) Swachh Bharat Abhiyan
(D) Pandit Deen Dayal Upadhyay Shramev Jayate Karyakaram

Ans :

(D) Pandit Deen Dayal Upadhyay Shramev Jayate Karyakaram

The launch of the Universal Account Number (UAN) was a significant digital initiative by the EPFO. This programme was officially introduced in October 2014 as a key component of the Pandit Deen Dayal Upadhyay Shramev Jayate Karyakaram. The initiative aimed to bring transparency and efficiency to the labour sector, and UAN was a major step in that direction.

Oct/Nov 2010

15. What is the mandatory percentage of an employee's salary that both the employee and the employer must contribute towards the EPF?

(A) 12%
(B) 8.33%
(C) 10%
(D) 3.67%

Ans :

(A) 12%

Under the Employees' Provident Fund scheme, it is mandatory for both the employee and the employer to make equal contributions. Each party is required to contribute 12% of the employee's salary (defined as Basic + Dearness Allowance). This combined contribution of 24% forms the core of the employee's retirement savings corpus under the EPF system.

May/June 2023

16. The employer's 12% contribution to the EPF is allocated between two schemes. What is the correct allocation?

(A) 12% to EPF and 0% to EPS.
(B) 3.67% to EPF and 8.33% to EPS.
(C) 8.33% to EPF and 3.67% to EPS.
(D) 6% to EPF and 6% to EPS.

Ans :

(B) 3.67% to EPF and 8.33% to EPS.

While the employer matches the employee's 12% contribution, their share is split between two different schemes. From the employer's contribution, 8.33% of the employee's salary is diverted to the Employees' Pension Scheme (EPS), and the remaining 3.67% is credited to the Employees' Provident Fund (EPF) account. This structure provides for both pension and provident fund benefits.

Oct/Nov 2016

17. What was the interest rate provided on the EPF balance for the financial year 2021-22?

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(A) 7.50%
(B) 8.10%
(C) 8.50%
(D) 9.00%

Ans :

(B) 8.10%
The Employees' Provident Fund offers a high rate of interest which facilitates retirement planning. For the financial year 2021-22, the interest rate declared on the EPF balance held in the account was 8.10%. This rate is determined by the Central Board of Trustees of the EPFO and is generally higher than rates offered by many other fixed-income instruments.

May/June 2014

18. The Employees' Provident Fund (EPF) falls under the EEE tax category. What does 'EEE' stand for?
(A) Exempt-Exempt-Exempt
(B) Entry-Exit-Exempt
(C) Employee-Employer-Exempt
(D) Earned-Exempt-Exempt

Ans :

(A) Exempt-Exempt-Exempt
The EEE status signifies a highly favorable tax treatment. It stands for Exempt-Exempt-Exempt. This means that the money invested in the EPF is exempt from tax, the interest earned on the accumulated balance is exempt from tax, and the final amount withdrawn upon maturity or retirement is also completely exempt from income tax, subject to certain conditions.

Oct/Nov 2007

19. Consider the following statements:
Assertion (A): The Employees' Provident Fund (EPF) is considered an extremely low-risk investment.
Reason (R): The scheme provides a safe investment option with the added advantage of government backing.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

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The assertion that EPF is a very low-risk investment is correct. The reason provided is also correct and directly explains the assertion. The implicit sovereign guarantee and government backing of the scheme ensure the safety and security of the invested capital and the returns, making it one of the safest avenues for retirement savings for salaried individuals.

May/June 2025

20. Mr. Kumar works in a private organization with a monthly basic salary of Rs 20,000. His employer has opted for the 'Minimum EPF' contribution rule. What will be the employer's monthly contribution towards the Employees' Pension Scheme (EPS) for Mr. Kumar?
(A) Rs 1,666 (8.33% of Rs 20,000)
(B) Rs 734 (3.67% of Rs 20,000)
(C) Rs 551 (3.67% of Rs 15,000)
(D) Rs 1,250 (8.33% of Rs 15,000)

Ans :

(D) Rs 1,250 (8.33% of Rs 15,000)
When an employee's salary is more than Rs 15,000 and the employer opts for 'Minimum EPF', the contribution calculations are based on the statutory minimum salary of Rs 15,000, not the actual salary. The employer's contribution to EPS is 8.33% of this minimum salary. Therefore, the contribution will be 8.33% of Rs 15,000, which equals Rs 1,249.50 or approximately Rs 1,250.

Oct/Nov 2019

21. An employee has a monthly salary (Basic + DA) of Rs 30,000, and their employer has opted for the 'Full EPF' contribution. In this scenario, what amount will be contributed from the employer's share to the Employee Provident Fund (EPF) account, and what amount goes to the Employee Pension Scheme (EPS)?
(A) EPF: Rs 1000, EPS: Rs 2600
(B) EPF: Rs 1250, EPS: Rs 2350
(C) EPF: Rs 2350, EPS: Rs 1250
(D) EPF: Rs 3600, EPS: Rs 0

Ans :

(C) EPF: Rs 2350, EPS: Rs 1250
The employer contributes a total of 12% of Rs 30,000, which is Rs 3,600. The contribution to EPS is capped at 8.33% of the statutory ceiling of Rs 15,000, which is Rs 1,250. The balance of the employer's contribution goes to the EPF account.

regulatory caps to manage risk. For Asset Class E, which represents equity investments, the maximum allocation is capped at 50% of the total contribution. This limit is designed to protect the retirement corpus from excessive market volatility.

Oct/Nov 2018

49. A subscriber joined NPS at age 35. At age 42, after 7 years in the scheme, they need funds for their child's higher education. Their own contribution to the Tier-I account amounts to Rs 2,00,000. What is the maximum amount they can withdraw partially?
(A) Rs 2,00,000
(B) Rs 1,00,000
(C) Rs 50,000
(D) Rs 40,000

Ans :

(C) Rs 50,000
Partial withdrawal from an NPS Tier-I account is allowed after 5 years for specific reasons like a child's education. The maximum amount that can be withdrawn is 25% of the subscriber's own contributions (excluding employer contributions and returns). Therefore, the subscriber can withdraw a maximum of 25% of Rs 2,00,000, which is Rs 50,000.

May/June 2012

50. An individual joins NPS at the age of 61. After completing 4 years in the scheme, they decide to make a premature withdrawal. What is the maximum percentage of the corpus they can withdraw as a lump sum?
(A) 20%
(B) 40%
(C) 60%
(D) 100%

Ans :

(A) 20%
The rules for withdrawal differ for subscribers joining after the age of 60. For such individuals, an exit is permitted after the completion of 3 years. In this case, which is considered a premature withdrawal, the subscriber can withdraw a maximum of 20% of the accumulated corpus as a lump sum, and the remaining 80% must be annuitized.

Oct/Nov 2025

51. Under the normal withdrawal rules from an NPS Tier-I account, what is the condition under which the entire accumulated corpus can be paid as a lump sum to the subscriber?
(A) If the accumulated corpus is less than Rs 10 lakhs.
(B) If the accumulated corpus is less than Rs 2.5 lakhs.
(C) The entire corpus can never be withdrawn as a lump sum.
(D) If the accumulated corpus is less than Rs 5 lakhs.

Ans :

(D) If the accumulated corpus is less than Rs 5 lakhs.
While the standard normal withdrawal rule mandates a minimum of 40% annuitization, there is an exception for smaller corpuses. If, at the time of normal retirement (age 60), the total accumulated pension corpus in the subscriber's account is less than or equal to Rs 5 lakhs, the subscriber has the option to withdraw the entire amount as a lump sum.

May/June 2005

52. When exiting the National Pension Scheme, a subscriber has the option to defer the purchase of an annuity. What is the maximum period for which this deferment is allowed?
(A) 1 year
(B) 3 years
(C) 2 years
(D) 5 years

Ans :

(B) 3 years
NPS provides flexibility to subscribers at the time of exit. If a subscriber does not wish to purchase an annuity immediately upon retirement, they have the option to defer it. The rules permit the subscriber to defer the purchase of the annuity (using the mandatory 40% of the corpus) for a maximum period of 3 years from the date of exit.

Oct/Nov 2014

53. In the unfortunate event of the death of an NPS subscriber before retirement, what is the provision for the accumulated pension corpus?
(A) The entire corpus is automatically forfeited and transferred to the government treasury.
(B) Only 60% of the corpus is paid to the nominee,

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of 5 years.
(D) 15 years initial lock-in, extendable in blocks of 1 year.

Ans :

(B) 15 years initial lock-in, extendable in blocks of 5 years.
The Public Provident Fund (PPF) is a long-term investment instrument with a mandatory initial lock-in period of 15 years. Upon maturity after these 15 years, the account holder has the option to extend the account for one or more blocks of 5 years at a time, allowing for continued tax-advantaged savings and accumulation.

Oct/Nov 2005

27. What are the minimum and maximum amounts that can be invested in a Public Provident Fund (PPF) account in a single financial year?
(A) Minimum Rs 1,000 and Maximum Rs 2,00,000.
(B) Minimum Rs 100 and Maximum Rs 1,00,000.
(C) Minimum Rs 5,000 and Maximum Rs 2,50,000.
(D) Minimum Rs 500 and Maximum Rs 1,50,000.

Ans :

(D) Minimum Rs 500 and Maximum Rs 1,50,000.
The PPF scheme has defined investment limits to cater to a wide range of investors. An individual must deposit a minimum of Rs 500 in a financial year to keep the account active. The maximum amount that can be deposited across all contributions in a single financial year is capped at Rs 1,50,000, which also aligns with tax deduction limits.

May/June 2020

28. Investments up to Rs 1,50,000 in a Public Provident Fund (PPF) account are eligible for tax deduction under which section of the Income Tax Act?
(A) Section 80C
(B) Section 80D
(C) Section 80E
(D) Section 80G

Ans :

(A) Section 80C
PPF is a popular tax-saving instrument due to its benefits under the Income Tax Act. Contributions made to a PPF account are eligible for a tax deduction from the investor's gross total income. This deduction can be claimed under Section 80C of the Act, up to the overall limit of Rs 1,50,000 per financial year.

Oct/Nov 2015

29. Which of the following categories of investors are NOT eligible to open a Public Provident Fund (PPF) account?
(A) Salaried individuals employed in the public or private sector.
(B) Self-employed professionals, such as doctors, lawyers, or consultants.
(C) Non-Resident Indians (NRIs) and Hindu Undivided Families (HUFs).
(D) Minor children, through an account opened and operated by their legal guardian.

Ans :

(C) Non-Resident Indians (NRIs) and Hindu Undivided Families (HUFs).
While any resident Indian citizen can open a PPF account for themselves or on behalf of a minor, there are specific exclusions. Non-Resident Indians (NRIs) and Hindu Undivided Families (HUFs) are not permitted to open new PPF accounts. This restriction makes the scheme exclusively available to resident individuals for their long-term savings and tax planning needs.

May/June 2013

30. An individual opens a Public Provident Fund (PPF) account on July 1, 2021. Between which two years of the account's life can they first avail a loan against their PPF balance?
(A) Between the third and the fifth year.
(B) Between the first and second year.
(C) Between the second and fourth year.
(D) Between the fifth and the seventh year.

Ans :

(A) Between the third and the fifth year.
The PPF scheme allows account holders to avail a loan facility against their accumulated balance, but only within a specific timeframe. The loan can be taken at any time after the expiry of one year from the end of the financial year in which the initial subscription was made, but before the expiry of five years. Thus, it is available between the third and fifth years.

Oct/Nov 2021

31. In the context of Insurance Annuity Schemes, what does the term 'annuity' signify?

NODIA

(A) A single, tax-free lump-sum payment made by the insurer upon the policyholder's premature death.
(B) The one-time, non-refundable premium paid at the inception of a term life insurance policy.
(C) The recurring administrative and fund management charges deducted by the insurance company.
(D) A series of regular payments made by an insurer to an individual, known as the annuitant.

Ans :

(D) A series of regular payments made by an insurer to an individual, known as the annuitant.
An annuity is a financial product sold by insurance companies that provides a series of regular, periodic payments to an individual, known as the annuitant. These payments can be for a fixed term or for the annuitant's lifetime. It essentially converts a lump-sum amount or a series of contributions into a steady income stream, typically for retirement.

May/June 2007

32. What is the fundamental difference between an Immediate Annuity and a Deferred Annuity?
(A) Immediate Annuity provides payments for life, while Deferred Annuity is restricted to a fixed term of 10 or 20 years.
(B) Immediate Annuity payouts start right away, whereas Deferred Annuity payouts begin at a later, pre-decided date.
(C) An Immediate Annuity must be bought with a single premium, while a Deferred Annuity requires multiple premiums.
(D) An Immediate Annuity is always market-linked and variable, whereas a Deferred Annuity offers fixed, guaranteed returns.

Ans :

(B) Immediate Annuity payouts start right away, whereas Deferred Annuity payouts begin at a later, pre-decided date.
The key distinction lies in the timing of the payout. An Immediate Annuity, typically purchased with a single lump-sum premium at retirement, starts paying out immediately. In contrast, a Deferred Annuity involves a period of accumulation (funded by single or regular payments), and the annuity payments begin at a specified future date or age.

Oct/Nov 2008

33. The National Pension Scheme (NPS) is open to employees from public, private, and unorganised sectors. Which group of employees is, however, explicitly excluded from the scheme?
(A) Central Government employees
(B) Private sector corporate employees
(C) Employees of the armed forces
(D) State Government employees

Ans :

(C) Employees of the armed forces
The National Pension Scheme (NPS) has broad coverage, including central and state government employees (recruited after a specific date), private sector employees, and all citizens on a voluntary basis. However, employees of the armed forces are explicitly excluded from the purview of the NPS, as they are covered by their own separate pension and benefit schemes.

May/June 2006

34. Upon retirement, what is the maximum percentage of the accumulated corpus that a National Pension Scheme (NPS) subscriber can typically withdraw as a tax-free lump sum?
(A) 40%
(B) 50%
(C) 100%
(D) 60%

Ans :

(D) 60%
Under the normal withdrawal rules of the National Pension Scheme (NPS), upon reaching the age of superannuation (typically 60 years), a subscriber is permitted to withdraw a part of their accumulated pension corpus as a lump sum. The maximum limit for this lump-sum withdrawal is 60% of the total corpus, which is also exempt from income tax.

Oct/Nov 2017

35. The National Pension System (NPS) is administered and regulated by which authority, established under an Act of Parliament in 2013?
(A) Pension Fund Regulatory and Development Authority (PFRDA)
(B) Reserve Bank of India (RBI)
(C) Securities and Exchange Board of India

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(SEBI)
(D) Employees' Provident Fund Organisation (EPFO)

Ans :

(A) Pension Fund Regulatory and Development Authority (PFRDA)
The National Pension System (NPS) is under the regulatory jurisdiction of the Pension Fund Regulatory and Development Authority (PFRDA). The PFRDA was established by the Government of India through the PFRDA Act, 2013, to regulate, promote, and ensure the orderly growth of the NPS and other pension schemes not regulated by any other specific law.

May/June 2018

36. What is the unique identifier generated and maintained by the Central Recordkeeping Agency (CRA) for each individual subscriber under the National Pension Scheme (NPS)?
(A) Universal Account Number (UAN)
(B) Permanent Retirement Account Number (PRAN)
(C) Aadhaar Number
(D) Permanent Account Number (PAN)

Ans :

(B) Permanent Retirement Account Number (PRAN)
Under the NPS, every subscriber is issued a unique Permanent Retirement Account Number (PRAN). This number is portable and remains the same for the subscriber throughout their life, irrespective of changes in employment or location. The PRAN is generated and all transaction records are maintained under it by the designated Central Recordkeeping Agency (CRA).

Oct/Nov 2012

37. In the National Pension Scheme (NPS), what is the primary distinction between a Tier-I and a Tier-II account?
(A) Tier-I is an exclusive account for government employees, while Tier-II is designed specifically for private-sector employees.
(B) Tier-I is the mandatory retirement account with withdrawal restrictions; Tier-II is an optional, liquid savings account.
(C) Tier-I mandates investment solely in equity funds, while Tier-II requires investment exclusively in debt instruments.
(D) Tier-I offers significant tax benefits on contributions, while Tier-II provides no tax benefits whatsoever to the subscriber.

Ans :

(B) Tier-I is the mandatory retirement account with withdrawal restrictions; Tier-II is an optional, liquid savings account.
The NPS structure has two account types. The Tier-I account is the primary, mandatory pension account with strict withdrawal and exit rules, designed for long-term retirement savings. The Tier-II account is a voluntary, add-on savings facility that offers high liquidity, allowing subscribers to withdraw their funds at any time without any restrictions.

May/June 2011

38. Consider the following statements regarding the features of the National Pension Scheme (NPS).
Statement I: The scheme is portable across different jobs and geographical locations.
Statement II: It offers tax benefits under Section 80C and Section 80CCD of the Income Tax Act.
Statement III: It is open to all Indian citizens on a voluntary basis.
Which of the above statements is/are correct?
(A) Only I
(B) Only I and II
(C) Only II and III
(D) All I, II, and III

Ans :

(D) All I, II, and III
All three statements accurately describe key features of the NPS. The scheme is fully portable, as the PRAN remains constant. It provides significant tax advantages under sections 80C and 80CCD. Furthermore, under the All-Citizens Model, it is available to any Indian citizen on a voluntary basis, making it a flexible and accessible retirement planning tool.

Oct/Nov 2020

39. For Central Government employees under NPS, the employer's contribution rate was enhanced with effect from 1st April 2019. What was the new enhanced rate?
(A) From 10% to 12%
(B) From 12% to 15%
(C) From 10% to 14%
(D) From 8% to 12%

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employer's contribution is capped at 10% of the employee's salary (Basic + DA).

May/June 2023

58. The Atal Pension Yojana (APY) is a pension scheme launched by the Government of India primarily focused on which sector of the workforce?
(A) Unorganised sector workers
(B) Central Government employees
(C) Organised private sector workers
(D) Public sector undertaking employees

Ans :

(A) Unorganised sector workers
The Atal Pension Yojana (APY) was specifically designed as a social security initiative targeting the vast unorganised sector in India. The scheme aims to encourage individuals in this sector, who often lack formal retirement benefits, to save voluntarily for their old age by offering a government-guaranteed minimum pension after they reach the age of 60.

Oct/Nov 2016

59. What is the prescribed age range for a citizen of India to be eligible to subscribe to the Atal Pension Yojana (APY)?
(A) 18 to 50 years
(B) 21 to 45 years
(C) 18 to 40 years
(D) 25 to 60 years

Ans :

(C) 18 to 40 years
The eligibility criteria for joining the Atal Pension Yojana are clearly defined to encourage early savings for retirement. Any citizen of India can subscribe to the scheme provided their age is between 18 and 40 years. A person ceases to be eligible to join the scheme upon attaining the age of 40, ensuring a minimum contribution period of 20 years.

May/June 2014

60. According to a Ministry of Finance notification, which category of citizens became ineligible to join the Atal Pension Yojana (APY) from October 1, 2022?
(A) Any citizen who is a Non-Resident Indian (NRI).
(B) Any citizen who is already a subscriber of the EPF scheme.
(C) Any citizen who does not possess an Aadhaar card.
(D) Any citizen who is or has been an income-tax payer.

Ans :

NODIA

(D) Any citizen who is or has been an income-tax payer.
A significant amendment was made to the APY eligibility rules. A notification dated August 10, 2022, stipulated that from October 1, 2022, any citizen who is or has been an income-tax payer would no longer be eligible to join the scheme. This change was aimed at focusing the scheme's benefits more precisely on the non-taxpaying, lower-income population.

Oct/Nov 2007

61. For eligible subscribers who joined the Atal Pension Yojana (APY) between 1st June 2015 and 31st March 2016, for how many years was the Government of India's co-contribution provided?
(A) 3 years
(B) 10 years
(C) For the entire duration of the policy.
(D) 5 years

Ans :

(D) 5 years
To incentivize early adoption of the scheme, the government offered a co-contribution benefit. For eligible subscribers who joined APY between June 1, 2015, and March 31, 2016, the government co-contributed for a period of 5 years. This co-contribution was applicable from the financial year 2015-16 to the financial year 2019-20.

May/June 2025

62. The Government's co-contribution to eligible APY subscribers was 50% of the total contribution or a certain maximum amount per annum, whichever was lower. What was this maximum amount?
(A) Rs 500 per annum
(B) Rs 1,500 per annum
(C) Rs 2,000 per annum
(D) Rs 1,000 per annum

Ans :

(D) Rs 1,000 per annum
The government's co-contribution for eligible APY subscribers was structured to provide a significant boost to their savings. The

1. Manages funds flow and banking facilities.
2. Acts as the first point of subscriber interaction.
3. Invests subscriber contributions in the market.
4. Maintains subscriber records and administers PRAN.

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-2, R-1, S-4

Ans :

(A) P-3, Q-4, R-1, S-2
In the NPS architecture, each intermediary has a distinct role. Pension Funds (PFs) invest the contributions (P-3). The Central Recordkeeping Agency (CRA) maintains all records (Q-4). The Trustee Bank manages the flow of funds (R-1). The Point of Presence (POP) is the main customer interface for onboarding and transactions (S-2).

Oct/Nov 2009

45. While opening a National Pension Scheme (NPS) account, which of the two sub-accounts, Tier-I and Tier-II, is mandatory for the subscriber?
(A) Tier-I account is mandatory.
(B) Tier-II account is mandatory.
(C) Both Tier-I and Tier-II accounts are mandatory.
(D) Neither is mandatory; the subscriber can choose either one.

Ans :

(A) Tier-I account is mandatory.
When an individual subscribes to the NPS, opening a Tier-I account is compulsory. This is the primary retirement account where contributions are locked in until exit conditions are met. The Tier-II account is an optional, voluntary savings facility that can be opened only if the subscriber has an active Tier-I account, offering liquidity and flexibility.

May/June 2016

46. As per the list provided, which of the following has been authorised as a Pension Fund Manager (PFM) for the 'Other than Government Sector' but NOT for the 'Government Sector' under NPS?
(A) SBI Pension Funds Pvt. Ltd.
(B) HDFC Pension Management Co. Ltd.
(C) LIC Pension Fund Ltd.
(D) UTI Retirement Solutions Ltd.

Ans :

(B) HDFC Pension Management Co. Ltd.
The list of authorised Pension Fund Managers (PFMs) differs for the Government and non-Government sectors. While SBI Pension Funds, LIC Pension Fund, and UTI Retirement Solutions are authorised to manage funds for both sectors, HDFC Pension Management Co. Ltd. (along with ICICI, Kotak, and Aditya Birla Sunlife) is listed as a PFM only for the 'Other than Government Sector'.

Oct/Nov 2022

47. Under the National Pension Scheme (NPS), what is the default investment option available to a subscriber who does not wish to make an 'Active choice'?
(A) Active choice - Aggressive Fund with 100% Equity allocation.
(B) Active choice - Conservative Fund with 100% Government Securities.
(C) Active choice - Balanced Fund with 50% Equity and 50% Debt.
(D) Auto choice - Lifecycle Fund

Ans :

(D) Auto choice - Lifecycle Fund
NPS offers two investment approaches. If a subscriber does not specify their preference under 'Active Choice', the system automatically allocates their funds under the 'Auto Choice' or Lifecycle Fund option. This default mechanism manages the investment mix automatically, gradually reducing equity exposure and increasing debt allocation as the subscriber's age increases, to de-risk the portfolio.

May/June 2008

48. For a subscriber opting for the 'Active choice' investment approach in NPS, what is the maximum percentage of contribution that can be invested in Asset Class E (Equity)?
(A) 50%
(B) 25%
(C) 75%
(D) 100%

Ans :

(A) 50%
Under the 'Active choice' mode, the subscriber decides the allocation of their funds across different asset classes. However, there are

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Ans :

(C) From 10% to 14%
To make the National Pension Scheme more attractive for Central Government employees, the government enhanced its matching contribution. With effect from April 1, 2019, the employer's (i.e., the Central Government's) contribution rate was increased from the earlier 10% of the employee's salary (Basic + DA) to 14%, providing a significant boost to the retirement corpus.

May/June 2022

40. Under the All-Citizens Model of the National Pension Scheme (NPS), what is the eligible age range for any citizen of India to join the scheme on a voluntary basis?
(A) 18 to 70 years
(B) 21 to 60 years
(C) 18 to 65 years
(D) 25 to 70 years

Ans :

(A) 18 to 70 years
The All-Citizens Model of NPS is designed to be highly inclusive, allowing any citizen of India, whether resident or non-resident, to open an account. The eligibility criteria specify a wide age bracket for entry. An individual can join the scheme at any point between the ages of 18 and 70 years, making it accessible for retirement planning at various life stages.

Oct/Nov 2023

41. The National Pension Scheme (NPS) is designed on which of the following principles, where the final accumulated wealth depends on contributions and investment growth?
(A) Defined Benefit basis
(B) Pay-as-you-go basis
(C) Final Salary basis
(D) Defined Contribution basis

Ans :

(D) Defined Contribution basis
NPS is fundamentally a 'Defined Contribution' scheme. This means the amount of contribution from the subscriber (and employer, if applicable) is fixed or defined. However, the final pension wealth or benefit is not guaranteed. It depends on the total contributions made over the years and the investment returns generated by the pension fund on that money.

May/June 2015

42. In the architecture of the National Pension System (NPS), which entity serves as the first point of interaction for the subscriber?
(A) Pension Fund Regulatory and Development Authority (PFRDA)
(B) Point of Presence (POP)
(C) Central Recordkeeping Agency (CRA)
(D) Annuity Service Provider (ASP)

Ans :

(B) Point of Presence (POP)
The Points of Presence (POPs) are the primary touchpoints for NPS subscribers. These entities, which include most banks and other financial institutions, are responsible for subscriber registration, receiving contributions, and providing other customer services. They act as the main interface between the subscriber and the broader NPS architecture, facilitating all initial and ongoing interactions.

Oct/Nov 2013

43. As per the information provided, which entity is currently designated to act as the Central Recordkeeping Agency (CRA) for the National Pension System?
(A) CDSL
(B) CIBIL
(C) NSDL
(D) CRISIL

Ans :

(C) NSDL
The Central Recordkeeping Agency (CRA) is a critical intermediary in the NPS architecture, responsible for maintaining records of all subscribers and their transactions. The text specifies that NSDL (National Securities Depository Limited) is the designated CRA at present. It handles the core functions of generating PRANs and managing the central database for the entire system.

May/June 2024

44. Match the NPS Intermediaries in List-I with their primary function in List-II.
List-I (Intermediary)
P. Pension Fund (PF)
Q. Central Recordkeeping Agency (CRA)
R. Trustee Bank
S. Point of Presence (POP)
List-II (Function)

NODIA

with the remaining 40% being forfeited.
(C) The entire accumulated corpus is paid out to the nominee or legal heir.
(D) The nominee is required to mandatorily purchase a lifetime annuity with the entire corpus.

Ans :

(C) The entire accumulated corpus is paid out to the nominee or legal heir.
In case of the subscriber's death during the accumulation phase, the scheme provides full benefits to their designated successors. The entire accumulated pension wealth in the NPS account is paid out to the nominee or the legal heir of the deceased subscriber. The nominee also has the option to purchase an annuity with the proceeds if they desire.

May/June 2019

54. Which of the following is listed as an Annuity Service Provider (ASP) empanelled by the PFRDA to provide annuity services to NPS subscribers?
(A) National Insurance Company Ltd.
(B) United India Insurance Co. Ltd.
(C) The New India Assurance Co. Ltd.
(D) SBI Life Insurance Co. Ltd.

Ans :

(D) SBI Life Insurance Co. Ltd.
Annuity Service Providers (ASPs) are life insurance companies licensed by IRDAI and empanelled by PFRDA to provide pensions to NPS subscribers upon exit. The provided list of empanelled ASPs includes major life insurers such as Life Insurance Corporation of India, HDFC Standard Life, ICICI Prudential Life, and SBI Life Insurance Co. Ltd., among others.

Oct/Nov 2006

55. NPS subscribers can choose from several generic annuity options offered by ASPs. Which of the following is NOT a valid annuity option described in the text?
(A) Pension (Annuity) payable for life with a guaranteed annual bonus of 5%.
(B) Pension (Annuity) payable for life at a uniform rate.
(C) Pension (Annuity) for life with return of purchase price on death of the annuitant.
(D) Pension (Annuity) for life with a provision of 100% of the annuity payable to the spouse.

Ans :

(A) Pension (Annuity) payable for life with a guaranteed annual bonus of 5%.
The text lists several generic annuity options available to NPS subscribers. These include annuity for life, annuity with return of purchase price, and joint-life annuities for the spouse. An option mentioned is an annuity increasing at a simple rate of 3% p.a., but an annuity with a guaranteed annual bonus of 5% is not among the described options.

May/June 2021

56. What is the maximum additional tax deduction a subscriber can claim for their own contribution to NPS Tier-I under Section 80CCD(1B) of the Income Tax Act?
(A) Rs 50,000
(B) Rs 25,000
(C) Rs 1,00,000
(D) Rs 1,50,000

Ans :

(A) Rs 50,000
To encourage investment in the National Pension Scheme, an exclusive tax benefit is provided. Over and above the Rs 1.5 lakh limit of Section 80C, a subscriber can claim an additional deduction for contributions to their NPS Tier-I account. This additional deduction is available under Section 80CCD(1B) of the IT Act, for a maximum amount of Rs 50,000.

Oct/Nov 2010

57. Under Section 80CCD(2) of the Income Tax Act, what is the maximum percentage of salary for which an employer's contribution to an employee's NPS account is eligible for tax deduction (for non-government employees)?
(A) 8%
(B) 12%
(C) 14%
(D) 10%

Ans :

(D) 10%
The employer's contribution to an employee's NPS Tier-I account is also eligible for tax deduction under Section 80CCD(2). For Central Government employees, this limit is 14% of salary. For all other employees, including those in the corporate sector, the deduction for the

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Therefore, the amount credited to EPF is Rs 3,600 - Rs 1,250 = Rs 2,350.

May/June 2009

22. In addition to the 12% contribution, what are the extra charges an employer needs to pay towards EPF-related schemes?

(A) 1.0% for EDLI and 1.0% for EPF administration charges.

(B) 0.5% for EDLI and 0.5% for EPF administration charges.

(C) 0.75% for EDLI and 0.25% for EPF administration charges.

(D) No extra charges are required from the employer.

Ans :

(B) 0.5% for EDLI and 0.5% for EPF administration charges.

Apart from the main 12% contribution, the employer is liable for additional charges. These include 0.5% of the salary towards the Employee Deposit Linked Insurance (EDLI) scheme and another 0.5% towards EPF administration charges. This makes the total outflow for the employer slightly higher than the 12% matched contribution, covering insurance and administrative overheads.

Oct/Nov 2011

23. What is the primary condition for an employer to establish an Exempted Fund as a substitute for the EPFO plan?

(A) The fund must invest a minimum of 100% of its total assets in central government bonds.

(B) The employer must have a workforce of more than 1,000 employees to be eligible for exemption.

(C) The fund must be managed exclusively by PSU banks without any form of employee trusteeship.

(D) The benefits offered must be equal to or better than those provided by the EPFO scheme.

Ans :

(D) The benefits offered must be equal to or better than those provided by the EPFO scheme.

Employers can set up their own Exempted Funds to manage employee provident funds, but only with EPFO approval. The fundamental condition is that the pension plan and benefits offered by this private trust must be at least as good as, or better than, the benefits provided under the standard EPFO schemes, ensuring that employee interests are not compromised.

May/June 2010

24. According to the investment regulations for Exempted Funds, what is the minimum percentage of assets that must be invested in central government bonds?

(A) 25%

(B) 10%

(C) 15%

(D) 30%

Ans :

(A) 25%

Exempted Funds are subject to stringent investment regulations to ensure the safety of the corpus. A key rule is that a minimum of 25% of the fund's total assets must be invested in central government bonds. This mandate ensures a significant portion of the retirement funds is held in highly secure, sovereign-backed securities, minimizing investment risk for the members.

Oct/Nov 2024

25. Since 1998, what is the maximum percentage of their portfolio that trustees of Exempted Funds have the option to invest in private sector bonds?

(A) 5%

(B) 15%

(C) 10%

(D) 20%

Ans :

(C) 10%

While Exempted Funds have strict regulations mandating investment in government and public sector securities, some flexibility was introduced. Since 1998, the trustees of these funds have been given the option to invest a portion of the assets in private sector bonds. The maximum permissible limit for such investments is capped at 10% of the total portfolio.

May/June 2017

26. What is the initial lock-in period for a Public Provident Fund (PPF) account, and for how many years can it be extended thereafter?

(A) 10 years initial lock-in, extendable in blocks of 3 years.

(B) 15 years initial lock-in, extendable in blocks of 5 years.

(C) 20 years initial lock-in, extendable in blocks

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government contributed 50% of the subscriber's total contribution for the year, but this amount was capped at a maximum of Rs 1,000 per annum. This benefit was provided for five years to encourage participation in the scheme.

Oct/Nov 2019

63. Based on the provided table, what is the monthly contribution required for a person entering APY at age 25 to receive a guaranteed pension of Rs 5,000/month?
(A) Rs 151
(B) Rs 226
(C) Rs 376
(D) Rs 301

Ans :

(C) Rs 376
By referring to Table 43.1, locate the row for 'Age at entry' 25. Then, move across this row to the column under 'Minimum Guaranteed Pension of Rs 5000/month'. The value in the 'Monthly contribution' sub-column for this intersection is Rs 376. This is the amount the subscriber needs to contribute each month until age 60.

May/June 2009

64. According to the provided table, if a subscriber joins APY at age 40, what is their quarterly contribution for a minimum guaranteed pension of Rs 1,000/month?
(A) Rs 291
(B) Rs 1717
(C) Rs 1454
(D) Rs 867

Ans :

(D) Rs 867
To find the answer from Table 43.1, first locate the row corresponding to 'Age at entry' 40. Next, find the main column for 'Minimum Guaranteed Pension of Rs 1000/month'. Within this column, the value under the 'Quarterly contribution' sub-column is Rs 867. This is the required quarterly payment for a subscriber joining at this age.

Oct/Nov 2011

65. As per the provided table, what is the half-yearly contribution for a subscriber joining at age 18 who wishes to get a guaranteed pension of Rs 3,000/month?
(A) Rs 744
(B) Rs 248
(C) Rs 496
(D) Rs 991

Ans :

(A) Rs 744
Using Table 43.1, find the row for 'Age at entry' 18. Then, navigate to the column for 'Minimum Guaranteed Pension of Rs 3000/month'. The figure listed in the 'Half-yearly contribution' sub-column at this intersection is Rs 744. This is the amount the subscriber must pay every six months to secure the chosen pension amount.

May/June 2010

66. Referring to the provided table, what is the 'Return of Corpus Amount to the Nominee' for a subscriber who had opted for a guaranteed pension of Rs 4,000/month?
(A) Rs 5.1 Lakh
(B) Rs 6.8 Lakh
(C) Rs 3.4 Lakh
(D) Rs 8.5 Lakh

Ans :

(B) Rs 6.8 Lakh
The header section of Table 43.1 links the pension amount to the corpus that will be returned to the nominee. By looking at the column header for 'Minimum Guaranteed Pension of Rs 4000/ month', the corresponding 'Return of Corpus Amount to the Nominee' mentioned directly above it is Rs 6.8 Lakh. This amount is returned after the death of both the subscriber and spouse.

Oct/Nov 2024

67. From the provided table, what is the vesting period in years for a subscriber who joins the Atal Pension Yojana at the age of 30?
(A) 25 years
(B) 35 years
(C) 40 years
(D) 30 years

Ans :

(D) 30 years
The vesting age for APY is 60 years. The vesting period is the duration of contribution. To find this, look at the row for 'Age at entry' 30 in the table. The corresponding value in the 'Vesting period' column is 30. This is calculated as the vesting age (60) minus the entry age (30), resulting in a 30-year contribution period.

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companies put together must not exceed 10% of its own paid-up capital and reserves, ensuring diversified deployment of capital.

May/June 2019

12. What is the maximum equity a bank can contribute to an Infrastructure Debt Fund set up as a Non-Banking Finance Company (IDF-NBFC)?
(A) 30%
(B) 49%
(C) 51%
(D) 74%

Ans :

(B) 49%
While banks are encouraged to support infrastructure financing, there are limits to their equity participation in an IDF-NBFC. A bank is not permitted to be a majority shareholder and its equity contribution is capped at a maximum of 49% of the equity of the IDF-NBFC. This ensures that the IDF-NBFC maintains a degree of independence from the sponsoring bank.

Oct/Nov 2023

13. To be recognized as a 'sponsor' of an Infrastructure Debt Fund-NBFC (IDF-NBFC), what is the minimum equity contribution required from a bank?
(A) A bank contributing less than 10% of the equity shall be considered a passive investor, not a sponsor.
(B) A bank contributing less than 49% of the equity shall not be a sponsor.
(C) A bank contributing less than 30% of the equity shall not be a sponsor.
(D) Any level of equity contribution grants sponsorship status, provided the bank is an AD Category-I bank.

Ans :

(C) A bank contributing less than 30% of the equity shall not be a sponsor.
The status of a 'sponsor' for an IDF-NBFC is linked to a significant level of equity commitment. A bank must contribute at least 30% of the equity of the IDF-NBFC to be considered a sponsor. If a bank's contribution is below this 30% threshold, it is not granted sponsorship status, which has implications for governance and control.

May/June 2007

14. What is the regulatory restriction on a bank's equity holding in a deposit-taking Non-Banking Financial Company (NBFC)?
(A) Banks can hold up to 49% in the equity of a deposit-taking NBFC with prior RBI approval.
(B) There is no restriction on equity holding in a deposit-taking NBFC.
(C) Banks are completely prohibited from holding any equity in a deposit-taking NBFC.
(D) Banks are not allowed to hold more than 10% in the equity of a deposit-taking NBFC.

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Ans :

(D) Banks are not allowed to hold more than 10% in the equity of a deposit-taking NBFC.
To prevent the build-up of systemic risk and interconnectedness between the banking and NBFC sectors, RBI has imposed a strict limit. Banks are generally not permitted to hold more than 10% of the equity in a deposit-taking NBFC. This rule does not apply to housing finance companies, which are governed by a different set of regulations.

Oct/Nov 2017

15. Alpha Bank Ltd. has paid-up share capital and reserves of ₹5,000 crores as per its last audited balance sheet. The bank wants to make a strategic equity investment in a financial services company, which will not be its subsidiary. What is the maximum amount Alpha Bank Ltd. can invest in the equity of this single financial services company according to prudential limits?
(A) ₹500 crores
(B) ₹250 crores
(C) ₹750 crores
(D) ₹1,000 crores

Ans :

(A) ₹500 crores
The prudential limit for a bank's equity investment in a financial services company (not being a subsidiary) is 10% of the bank's paid-up share capital and reserves. For Alpha Bank Ltd., this limit is calculated as 10% of ₹5,000 crores, which amounts to ₹500 crores. Therefore, this is the maximum individual investment allowed in that company.

CHAPTER 44

Para Banking and Financial Services Provided by Banks

Oct/Nov 2011

1. What is the primary characteristic of activities classified as para banking and financial services?

(A) They are the core, traditional activities of a bank, such as accepting demand and time deposits and extending credit facilities.

(B) They are non-traditional activities undertaken by a bank, distinct from its normal day-to-day operations like deposit acceptance and credit extension.

(C) They are exclusively related to foreign exchange transactions and the financing of international trade, falling under treasury operations.

(D) They are specialized services provided only through a bank's overseas branches to cater specifically to non-resident clients.

Ans :

(B) They are non-traditional activities undertaken by a bank, distinct from its normal day-to-day operations like deposit acceptance and credit extension.

Para banking and financial services refer to activities that a bank undertakes which are distinct from its traditional functions of accepting deposits, processing withdrawals, and extending credit. These services expand a bank's business scope into areas like investment advisory, insurance, and mutual fund distribution, diversifying its revenue streams beyond conventional banking operations.

May/June 2025

2. The RBI's Master Direction (2016) expanded the scope of para banking services by adding which of the following activities?

(A) Investment advisory services, agency business, and commodity broking services.

(B) Mutual Fund Business for distribution and Insurance Business for acting as a corporate agent.

(C) Factoring Services for domestic receivables and Primary Dealership Business in government securities.

(D) Equipment Leasing for capital goods and Hire Purchase Business for consumer durables.

Ans :

(A) Investment advisory services, agency business, and commodity broking services.

The RBI Master Direction (2016) broadened the range of permissible para banking activities for banks. It specifically included investment advisory services, agency business conducted by banks, and broking services for the commodity trading segment. This update expanded the scope from the earlier Master Circular of 2015, allowing banks to engage in a wider array of financial services.

Oct/Nov 2020

3. According to the Banking Regulation Act, 1949, how can a bank undertake permissible para-banking activities?

(A) Only through a separate subsidiary established specifically for this purpose under the Companies Act, 2013.

(B) Only departmentally within the bank's existing structure, requiring internal approval from the bank's board of directors.

(C) Either departmentally within the bank or through a separate subsidiary, with prior RBI approval required for the subsidiary route.

(D) Only through a joint venture with a registered non-banking financial company as per Ministry of Finance guidelines.

Ans :

(C) Either departmentally within the bank or through a separate subsidiary, with prior RBI approval required for the subsidiary route.

As per Section 6(1) and Section 19(1) of the Banking Regulation Act, 1949, banks have the

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(D) Internal Debt Management Department (IDMD)

The regulation of Primary Dealership business is bifurcated based on the structure. If a bank sets up a subsidiary for PD business, it is registered as an NBFC with the DNBR. However, if the bank undertakes the PD business departmentally, it is required to be registered specifically with the RBI's Internal Debt Management Department (IDMD).

May/June 2023

28. Based on the following minimum eligibility criteria, which of the following banks would be eligible to apply for a Primary Dealership license? "Minimum Net Owned Fund of ₹1,000 crores; Minimum CRAR of 9%; Net NPAs of less than 3% and a profit-making record for the last three years."

(A) A bank with Net Owned Fund of ₹1,500 cr, CRAR of 11%, and Net NPA of 2.8%, with profits in the last 3 years.

(B) A bank with Net Owned Fund of ₹1,200 cr, CRAR of 8.5%, and Net NPA of 2.5%.

(C) A bank with Net Owned Fund of ₹900 cr, CRAR of 10%, and Net NPA of 2.0%.

(D) A bank with Net Owned Fund of ₹1,100 cr, CRAR of 9.5%, and Net NPA of 3.5%.

Ans :

(A) A bank with Net Owned Fund of ₹1,500 cr, CRAR of 11%, and Net NPA of 2.8%, with profits in the last 3 years.

To be eligible, a bank must satisfy all the specified criteria simultaneously. The bank in the correct option meets all conditions: its Net Owned Fund (₹1,500 cr) is above the ₹1,000 cr minimum, its CRAR (11%) is above the 9% minimum, its Net NPA (2.8%) is less than 3%, and it has a profit-making record. The other options fail on at least one criterion.

Oct/Nov 2007

29. Which two associations are Bank-PDs expected to join to abide by their code of conduct?

(A) SEBI and RBI

(B) AMFI and IBA

(C) PDAI and FIMMDA

(D) FEDAI and BCSBI

Ans :

(C) PDAI and FIMMDA

To ensure standardized market practices and ethical conduct, Bank-Primary Dealers are expected to become members of key industry bodies. These are the Primary Dealers' Association of India (PDAI) and the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Membership requires adherence to the codes of conduct framed by these associations for the securities markets.

May/June 2006

30. Which of the following statements about the regulation of Bank-PDs is correct?

(A) The investment portfolio for PD business is governed by "Held-for-Trading" norms.

(B) Bank-PDs have separate access to RBI's LAF facility, just like standalone PDs.

(C) The Government Dated Securities held under PD business are always excluded from SLR calculation.

(D) RBI does not conduct on-site inspections of Bank-PD business.

Ans :

(A) The investment portfolio for PD business is governed by "Held-for-Trading" norms.

The portfolio of Government Dated Securities and Treasury Bills earmarked for the Primary Dealership business is subject to specific accounting and valuation rules. The guidelines mandate that the classification, valuation, and operation of this portfolio must follow the norms applicable to the "Held-for-Trading" (HFT) category, which involves marking to market at frequent intervals.

Oct/Nov 2019

31. How must a bank undertake underwriting of issues of shares, debentures, and bonds?

(A) Only departmentally.

(B) It is a prohibited activity for commercial banks.

(C) Only through a merchant banking subsidiary.

(D) Either departmentally or through a merchant banking subsidiary.

Ans :

(D) Either departmentally or through a merchant banking subsidiary.

Banks are permitted to engage in underwriting activities, which is a key function of merchant banking. The regulatory framework allows banks the flexibility to conduct this business

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The definition of 'business of financial services' includes activities like merchant banking, portfolio management, operating a depository, and managing a pension fund. It also covers the operation of a commodity exchange. However, it does not include engaging in agricultural commodity trading directly on a proprietary basis, which is a trading activity rather than a financial service intermediary function.

May/June 2022

8. As per RBI guidelines, what is the definition of a 'Non-Financial Services Company'?

(A) A company whose business activities do not fall under any of the categories defined for a 'Financial Services Company'.

(B) A company that is engaged exclusively in primary sector activities like agriculture, horticulture, and animal husbandry.

(C) Any unlisted company, such as a privately held entity, that is not required to comply with SEBI listing obligations.

(D) A company whose primary business is in the manufacturing or information technology sectors, as these are non-financial industries.

Ans :

(A) A company whose business activities do not fall under any of the categories defined for a 'Financial Services Company'.

A 'Non-Financial Services Company' is defined by exclusion. It is a company that does not conduct any of the specific activities listed under the comprehensive definition of 'business of financial services'. This distinction is crucial for applying different prudential investment limits and regulations, as banks' exposure to financial and non-financial companies is treated differently by the regulator.

Oct/Nov 2014

9. Referral Services, in the context of para-banking, refer to the arrangement between a bank and which other party?

(A) Another domestic bank for sharing credit information under CIBIL regulations.

(B) The Reserve Bank of India for accessing liquidity support through the LAF window.

(C) A third-party financial product provider for customer referrals.

(D) A software vendor for implementing or upgrading core banking solutions.

Ans :

(C) A third-party financial product provider for customer referrals.

Referral Services involve an arrangement where a bank refers its customers to a third-party provider of financial products. In this model, the bank acts as an introducer or a conduit, typically for a fee, without taking on the risk associated with the product itself. The product is provided and managed entirely by the third-party entity.

May/June 2012

10. What is the maximum individual equity investment a bank can make in a subsidiary company or a financial services company (not being a subsidiary)?

(A) 10% of the bank's paid-up share capital and reserves.

(B) 10% of the bank's net worth.

(C) 20% of the bank's paid-up share capital and reserves.

(D) 15% of the bank's Tier-I capital.

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Ans :

(A) 10% of the bank's paid-up share capital and reserves.

Prudential regulations place a specific cap on a bank's investment in other entities. The equity investment by a bank in a single subsidiary or a financial services company (which is not a subsidiary) is capped at 10% of the bank's own paid-up share capital and reserves, as per the last audited balance sheet or a subsequent one, whichever is lower.

Oct/Nov 2008

11. What is the maximum aggregate equity investment a bank can hold in factoring subsidiaries and other factoring companies?

(A) 5% of the bank's paid-up capital and reserves.

(B) 15% of the bank's net worth.

(C) 20% of the bank's Tier-I capital.

(D) 10% of the bank's paid-up capital and reserves.

Ans :

(D) 10% of the bank's paid-up capital and reserves.

To manage concentration risk in a specific para-banking sector, the RBI has stipulated an aggregate limit for investments in the factoring business. A bank's total combined equity investment in all its factoring subsidiaries and other factoring

flexibility to conduct permissible para-banking activities. They can choose to offer these services directly through their own departments or by establishing a separate subsidiary. Setting up a subsidiary for this purpose requires obtaining prior approval from the Reserve Bank of India.

May/June 2010

4. When a bank undertakes a para-banking activity departmentally, which set of guidelines must it primarily follow?

(A) Exclusively the regulations issued by SEBI, as these are considered to govern all market-related financial activities.

(B) Solely the specific guidelines issued by IRDA and PFRDA, as they are the designated sectoral regulators for insurance and pensions.

(C) Primarily the internal policies framed by the bank's Board, as departmental autonomy is granted for such operations.

(D) RBI guidelines on KYC and customer rights, plus rules from sectoral regulators like SEBI, IRDA, and PFRDA.

Ans :

(D) RBI guidelines on KYC and customer rights, plus rules from sectoral regulators like SEBI, IRDA, and PFRDA.

If a bank conducts para-banking activities departmentally, it is mandated to adhere to a comprehensive regulatory framework. This includes RBI's guidelines on KYC and the Charter of Customer Rights. Additionally, it must comply with all instructions and regulations from specific sectoral regulators such as SEBI for securities, IRDA for insurance, and PFRDA for pensions, as applicable.

Oct/Nov 2016

5. The definition of 'Factoring' for the purpose of para-banking guidelines is derived from which Act?

(A) The Indian Contract Act, 1872

(B) The Sale of Goods Act, 1930

(C) The Factoring Regulation Act, 2011

(D) The Banking Regulation Act, 1949

Ans :

(C) The Factoring Regulation Act, 2011

For the purpose of the guidelines on financial services provided by banks, the term 'Factoring' is explicitly defined as per the meaning provided in the Factoring Regulation Act, 2011. This Act provides the legal framework for factoring business in India, defining the rights and obligations of parties involved in a factoring transaction, and is the reference point for banks.

May/June 2018

6. Based on the provided definition in the excerpt, which of the following is considered a 'business of financial services'?

(A) The manufacturing of industrial goods for both domestic sale and international export markets.

(B) The business of a securitisation or reconstruction company as defined under the SARFAESI Act, 2002.

(C) Agricultural farming activities, including the production of food grains and various commercial crops.

(D) Real estate development, which involves the construction of residential and commercial properties for sale.

Ans :

(B) The business of a securitisation or reconstruction company as defined under the SARFAESI Act, 2002.

The provided text explicitly lists several activities that constitute the 'business of financial services'. Among the options, the business of a securitisation or reconstruction company, as defined under the SARFAESI Act, 2002, is clearly mentioned in clause (g) of the explanation. The other options describe non-financial service activities and are not included in this regulatory definition.

Oct/Nov 2005

7. Which of the following is NOT included in the definition of 'business of financial services' for a Financial Services Company?

(A) Business of a merchant banker or portfolio manager.

(B) Operation of a depository as per the Depositories Act, 1996.

(C) Business of managing a pension fund under PFRDA.

(D) Business of agricultural commodity trading on a proprietary basis.

Ans :

(D) Business of agricultural commodity trading on a proprietary basis.

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May/June 2024

16. What is the maximum permissible investment for a bank in the unit capital of a Real Estate Investment Trust (REIT) or an Infrastructure Investment Trust (InvIT)?
(A) 20% of the unit capital of the REIT/InvIT.
(B) 10% of the unit capital of the REIT/InvIT.
(C) 5% of the bank's net worth.
(D) 10% of the bank's Tier-I capital.

Ans :

(B) 10% of the unit capital of the REIT/InvIT.
Banks' investments in instruments like REITs and InvITs are subject to specific ceilings to manage exposure. A bank is not allowed to invest more than 10% of the total unit capital of a particular REIT or InvIT. This is further subject to an overall ceiling for investments in shares, bonds, and other specified instruments.

Oct/Nov 2009

17. Under what condition can a bank's investment in a non-financial services company exceed 10% but not 30% of that company's paid-up share capital?
(A) If the investee company is a start-up in the technology sector, as this is a priority area.
(B) If the additional acquisition is through debt restructuring or to protect the bank's interest on existing loans.
(C) If the investee company has been profitable for five consecutive years, indicating financial stability.
(D) If the bank gets special permission from the Ministry of Finance for a strategic national project.

Ans :

(B) If the additional acquisition is through debt restructuring or to protect the bank's interest on existing loans.
While the general limit for a bank's holding in a non-financial company is 10%, an exception allows this to be increased up to 30%. This is permissible if the investee company is engaged in activities permitted for banks under Section 6(1) of the BR Act, or if the additional equity is acquired as part of a debt restructuring plan.

May/June 2013

18. What is the aggregate equity investment limit for a bank in all its subsidiaries and other entities (both financial and non-financial)?
(A) 20% of the bank's paid-up share capital and reserves.
(B) 10% of the bank's net worth.
(C) 30% of the bank's Tier-I capital.
(D) 40% of the bank's total assets.

Ans :

(A) 20% of the bank's paid-up share capital and reserves.
To ensure that a bank's capital is not overly concentrated in equity investments in other entities, an overall cap is in place. A bank's aggregate equity investments across all its subsidiaries and other companies (financial and non-financial, including overseas investments) must not exceed 20% of its own paid-up share capital and reserves.

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Oct/Nov 2018

19. Under which circumstance is prior approval from the RBI NOT necessary for a bank to invest in a financial services company (that is not a subsidiary)?
(A) When the bank has incurred a net loss in the immediately preceding financial year.
(B) When the aggregate shareholding of the bank and its controlled entities exceeds 20% of the investee company's capital.
(C) When the bank's proposed shareholding is less than 10% of the investee company's paid-up capital.
(D) When the bank does not meet the minimum prescribed Capital Conservation Buffer.

Ans :

(C) When the bank's proposed shareholding is less than 10% of the investee company's paid-up capital.
Prior RBI approval is waived for small investments if certain conditions are met cumulatively. One key condition is that the bank's shareholding, including the proposed investment, remains below 10% of the investee company's paid-up capital. Other conditions include the bank being profitable and meeting capital requirements, and aggregate holdings remaining below 20%.

May/June 2005

20. Which of the following statements regarding the relationship between a parent bank and its subsidiary is INCORRECT?
(A) The subsidiary can have online access to customers' accounts maintained with the parent bank.

(B) The parent bank's Board must review the subsidiary's working at periodical intervals.
(C) Transactions between the bank and its subsidiary must be at arm's length.
(D) The subsidiary cannot set up another subsidiary without prior approval of the RBI.

Ans :

(A) The subsidiary can have online access to customers' accounts maintained with the parent bank.
To maintain data privacy, confidentiality, and an arm's length relationship, a subsidiary is explicitly prohibited from having any online access to the customer accounts maintained with its parent bank. Information can be shared, but not through direct, online access to the core banking system, thus protecting customer data and preventing conflicts of interest.

Oct/Nov 2022

21. What is meant by the 'arm's length' relationship that a parent/sponsor bank must maintain with its subsidiary?
(A) The bank must provide preferential treatment and favorable terms to its subsidiary to support its initial growth phase.
(B) The subsidiary's employees are automatically considered employees of the parent bank for all wage agreements and benefits.
(C) The bank has the authority to grant unsecured advances to the subsidiary up to a pre-approved, board-level limit.
(D) All transactions between the bank and subsidiary should be conducted on a commercial basis, as if they were unrelated parties.

Ans :

(D) All transactions between the bank and subsidiary should be conducted on a commercial basis, as if they were unrelated parties.
An 'arm's length' relationship mandates that all transactions between a parent bank and its subsidiary are conducted on a purely commercial basis, with no preferential treatment. The terms and conditions of these transactions should be the same as those that would apply to a similar transaction with an independent, unrelated counterparty with similar risk characteristics.

May/June 2016

22. In what forms can an Infrastructure Debt Fund (IDF) be set up by a sponsoring bank?
(A) Only as a specialized department operating within the sponsoring bank's existing structure.
(B) Either as a SEBI-regulated Mutual Fund (IDF-MF) or an RBI-regulated Non-Banking Finance Company (IDF-NBFC).
(C) Only in the form of a trust, which is regulated by SEBI as a Mutual Fund (IDF-MF).
(D) Only in the form of a company, which is regulated by the RBI as a Non-Banking Finance Company (IDF-NBFC).

Ans :

(B) Either as a SEBI-regulated Mutual Fund (IDF-MF) or an RBI-regulated Non-Banking Finance Company (IDF-NBFC).
The regulatory framework provides two structural options for setting up an Infrastructure Debt Fund. A sponsoring bank can establish an IDF either in the form of a trust, which is regulated by SEBI as a mutual fund (IDF-MF), or as a company, which is regulated by the RBI as a non-banking finance company (IDF-NBFC).

Oct/Nov 2010

23. What is a key requirement for banks undertaking equipment leasing and hire purchase business through subsidiaries or joint ventures?
(A) The facilities extended are exempt from the bank's overall exposure ceilings and must be reported separately.
(B) These subsidiaries must primarily engage in activities incidental to leasing, hire purchase, and factoring.
(C) These subsidiaries can act as promoters of other equipment leasing companies with specific SEBI approval.
(D) The business can be undertaken by any branch of the bank as it is considered a standard banking service.

Ans :

(B) These subsidiaries must primarily engage in activities incidental to leasing, hire purchase, and factoring.
The guidelines specify that subsidiaries or joint ventures formed by banks for these activities should focus their operations. They are expected to be primarily engaged in equipment leasing,

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hire purchase, and factoring services, along with other activities that are incidental to this main line of business, ensuring a clear business focus for the subsidiary.

May/June 2021

24. What is a significant restriction placed on banks regarding leasing agreements?

(A) Banks are not permitted to lease imported equipment without obtaining a special import license from the DGFT.

(B) Banks are not permitted to enter into a leasing agreement with another equipment leasing company.

(C) Banks are not permitted to enter into leasing agreements with individuals unless they meet strict net worth criteria.

(D) Banks are not permitted to lease assets for a period of more than five years, as it is considered a high-risk activity.

Ans :

(B) Banks are not permitted to enter into a leasing agreement with another equipment leasing company.

To prevent the layering of risk and complex inter-company exposures within the financial sector, a specific prohibition is in place. A bank is not allowed to enter into a leasing agreement with another equipment leasing company or any other non-banking finance company that is itself engaged in the equipment leasing business.

Oct/Nov 2025

25. To avoid double financing in factoring services, what action is a borrower's bank expected to take?

(A) Obtain periodical certificates from the borrower regarding the receivables that have been factored.

(B) Refuse any further credit to borrowers who avail factoring services until the factored debt is fully paid off.

(C) Charge a higher interest rate on loans to such borrowers to compensate for the increased monitoring risk.

(D) Insist that the borrower only uses factoring services from the bank's own subsidiary for better internal control.

Ans :

(A) Obtain periodical certificates from the borrower regarding the receivables that have been factored.

To mitigate the risk of a borrower obtaining finance from a bank against receivables that have already been sold to a factor (double financing), banks must exercise due diligence. This includes obtaining regular certificates from the borrower detailing which book debts have been factored, thereby ensuring that the same asset is not financed twice.

May/June 2014

26. In the case of factoring on a 'with-recourse' basis, on whom is the bank's exposure reckoned?

"The exposure for facilities extended by way of factoring services shall be reckoned on the assignor for factoring on with-recourse basis and the exposure shall be reckoned on the debtor for factoring on without-recourse basis."

(A) On the debtor (the party who owes the money).

(B) On the assignor (the client selling the receivables).

(C) On the import factor involved in the transaction.

(D) Equally on both the assignor and the debtor.

Ans :

(B) On the assignor (the client selling the receivables).

As per the provided text, in a 'with-recourse' factoring arrangement, the credit risk ultimately remains with the client (the assignor) who sells the receivables. If the debtor defaults, the factor can recover the amount from the assignor. Therefore, for regulatory and exposure monitoring purposes, the exposure is reckoned on the assignor.

Oct/Nov 2012

27. A bank wishing to undertake Primary Dealership (PD) business departmentally must register with which department of the RBI?

(A) Foreign Exchange Department (FED)

(B) Department of Banking Regulation (DBR)

(C) Department of Non-Banking Regulation (DNBR)

(D) Internal Debt Management Department (IDMD)

Ans :

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May/June 2017

68. If an APY subscriber dies before reaching 60 years of age, which of the following options are available to the spouse?
Statement I: The spouse can choose to continue contributing to the account for the remaining period.
Statement II: The spouse can choose to have the entire accumulated corpus returned to them.
(A) Only I is available
(B) Only II is available
(C) Both I and II are available
(D) Neither I nor II is available

Ans :

(C) Both I and II are available
In the event of a subscriber's death before age 60, the scheme provides two distinct options to the surviving spouse. The spouse can either continue making contributions to the APY account in their own name for the remaining vesting period or they can opt to exit the scheme and receive the entire accumulated corpus as of that date.

Oct/Nov 2005

69. Upon attaining the age of 60, which of the following benefits will an Atal Pension Yojana (APY) subscriber receive?
Statement I: A guaranteed minimum pension amount until death.
Statement II: A guaranteed minimum pension amount for the spouse after the subscriber's demise.
Statement III: Return of the pension wealth to the nominee after the demise of both the subscriber and the spouse.
(A) Only I
(B) Only I and II
(C) All I, II, and III
(D) Only II and III

Ans :

(C) All I, II, and III
The APY scheme provides a three-fold benefit structure upon the subscriber reaching 60. Firstly, the subscriber receives the government-guaranteed minimum pension for life. Secondly, after the subscriber's death, their spouse is entitled to receive the same pension amount for their lifetime. Thirdly, after the demise of both, the accumulated pension wealth is returned to the nominee.

May/June 2020

70. While investments in APY are eligible for tax deduction under Section 80CCD, what is the overall maximum limit for deductions under the combined sections 80C, 80CCC, and 80CCD of the Income Tax Act?
(A) Rs 1,50,000
(B) Rs 50,000
(C) Rs 1,00,000
(D) Rs 2,00,000

Ans :

(A) Rs 1,50,000
Although contributions to APY qualify for tax deduction under Section 80CCD(1), it is important to note that this deduction falls within a larger, combined limit. The total amount of deductions that can be claimed under sections 80C, 80CCC (for pension plans), and 80CCD(1) together cannot exceed Rs 1,50,000 in a financial year.

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either directly through an internal department or by setting up a dedicated merchant banking subsidiary. In both cases, prudential exposure norms and SEBI regulations must be strictly followed.

May/June 2011

32. When a bank-sponsored mutual fund is publicising a new scheme, what is a mandatory requirement?

(A) The bank must offer a discount to its own customers as a loyalty benefit for their banking relationship.
(B) The bank must insert a disclaimer clause stating it is not liable for any loss or shortfall.
(C) The bank must guarantee a minimum return based on the past performance of its treasury operations.
(D) The bank must get the advertisement pre-approved by the Indian Banks' Association for industry code compliance.

Ans :

(B) The bank must insert a disclaimer clause stating it is not liable for any loss or shortfall.
To ensure that investors are not misled by the association of a bank's name with a mutual fund, regulations require clear disclosure. All publicity material for new schemes must include a suitable disclaimer. This clause should explicitly state that the bank is not responsible or liable for any losses or shortfalls arising from the fund's investment operations.

Oct/Nov 2015

33. Which of the following activities is a bank, acting as an agent for a mutual fund, prohibited from doing?

(A) Confining the retailing of mutual fund units to select branches based on their expertise and clientele.
(B) Extending credit facilities to individuals against the security of mutual fund units, subject to margin requirements.
(C) Acquiring units of mutual funds from the secondary market to sell to customers.
(D) Forwarding investor applications to the mutual fund and accepting payments on behalf of the fund.

Ans :

(C) Acquiring units of mutual funds from the secondary market to sell to customers.
When acting as an agent, a bank's role is limited to that of a distributor or facilitator. Banks are explicitly prohibited from acquiring mutual fund units from the secondary market or buying them back from existing customers with the intention of reselling them to other customers. This prevents banks from engaging in market-making or trading activities in this context.

May/June 2009

34. A bank can undertake insurance business with risk participation only through which channel?

(A) By outsourcing the activity to a third-party, which is prohibited for risk-bearing insurance activities.
(B) Through a subsidiary or joint venture, subject to fulfilling specific eligibility criteria.
(C) Departmentally, after getting approval from both RBI and IRDA for the specific products.
(D) By becoming a corporate agent, which limits the bank to selling products of only one insurer.

Ans :

(B) Through a subsidiary or joint venture, subject to fulfilling specific eligibility criteria.
Undertaking insurance business with risk participation, meaning assuming underwriting risk, is a significant activity that is ring-fenced from core banking operations. Banks are not allowed to do this departmentally. It can only be done by setting up a separate legal entity, either a subsidiary or a joint venture, and only after the bank meets stringent eligibility criteria.

Oct/Nov 2024

35. What is the minimum net worth a bank must have to be eligible to set up a subsidiary/JV for insurance business with risk participation?

(A) ₹1,000 crore
(B) ₹500 crore
(C) ₹2,000 crore
(D) ₹5,000 crore

Ans :

(A) ₹1,000 crore
To ensure that only financially strong and stable banks enter the risk-bearing insurance business, the RBI has set a high entry barrier. A bank must have a net worth of at least ₹1,000 crore as on March 31 of the previous year to be considered eligible for setting up a subsidiary or joint venture for this purpose.

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of a bank guarantee.
(B) With a scheduled commercial bank other than itself.
(C) With the Reserve Bank of India in a designated 'Insurance Deposit Account'.
(D) With the bank itself in a separate blocked account that cannot be used for normal operations.

Ans :

(B) With a scheduled commercial bank other than itself.
As per the IRDA (Licensing of Banks as Insurance Brokers) Regulations, when a bank acts as an insurance broker/agent, it must maintain a specified deposit. To ensure this deposit is held at arm's length and is readily available, the regulation requires that it be maintained with a scheduled commercial bank other than the bank that is acting as the agent.

Oct/Nov 2020

45. Which of the following is a prohibited practice for a bank's staff engaged in insurance agency services?
(A) Receiving incentive payments (cash or non-cash) directly from the insurance company.
(B) Possessing the requisite qualification prescribed by IRDA and undergoing continuous training.
(C) Treating customers fairly and honestly by conducting a proper need-analysis for product suitability.
(D) Explaining the voluntary nature of purchasing an insurance product and the free-look period.

Ans :

(A) Receiving incentive payments (cash or non-cash) directly from the insurance company.
To prevent mis-selling and conflicts of interest, regulations prohibit the staff of a bank engaged in insurance distribution from receiving any form of incentive, whether cash or non-cash, directly from the insurance company whose products they are selling. Any compensation or incentive structure must be managed by the bank itself and must comply with the Banking Regulation Act.

May/June 2010

46. Bank-Y offers referral services to its customers for various financial products offered by Third-Party-Z. A customer, Mr. Sharma, is referred by Bank-Y to Third-Party-Z for a complex derivative product. What is Bank-Y's primary responsibility towards Mr. Sharma in this arrangement?
(A) To compensate Mr. Sharma for any losses incurred from the product if it was mis-sold by the third party.
(B) To make it explicitly clear upfront that it is providing purely a referral service on a non-risk participation basis.
(C) To guarantee the returns on the derivative product, as the referral implies an endorsement from the bank.
(D) To conduct a full credit appraisal of Mr. Sharma to ensure the product is suitable for his risk profile.

Ans :

(B) To make it explicitly clear upfront that it is providing purely a referral service on a non-risk participation basis.
In a referral service arrangement, the bank's role is limited to introduction. A key regulatory requirement is transparency with the customer. The bank must explicitly and clearly inform the customer from the outset that it is only acting as a referrer, the service is on a non-risk participation basis, and the bank holds no responsibility for the product's performance.

Oct/Nov 2016

47. For which of the following products are banks prohibited from offering referral services?
(A) Mutual Funds
(B) Equity Broking
(C) Pension Products
(D) Insurance

Ans :

(D) Insurance
The guidelines for referral services contain a specific exclusion. Banks are permitted to offer referral services for various financial products, but they are explicitly restricted from doing so for insurance products. Distribution of insurance products by banks is governed by a separate, more stringent framework (corporate agency or broking), which involves more than just a simple referral.

May/June 2018

48. What is a key condition banks must adhere to when undertaking the business of retailing Government Securities to non-bank clients?

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Ans :

(A) One year

To ensure that Portfolio Management Services (PMS) are used for genuine investment management and not for short-term fund parking, a minimum tenure is prescribed. The guidelines state that funds shall not be accepted for portfolio management for a period of less than one year. Each placement of funds is treated as a separate account with this minimum lock-in.

Oct/Nov 2021

41. How are the undeployed funds held in a 'Clients' Portfolio Account' for PMS treated by the bank?
"The bank shall maintain a 'Clients' Portfolio Account' in its general ledger... The balance lying in this account (i.e., undeployed funds, if any, from this account) shall be treated as outside borrowings of the bank and it shall maintain cash reserve ratio/statutory liquidity ratio, on such funds."

(A) As off-balance sheet items with no reserve requirements, since the funds technically do not belong to the bank.
(B) As contingent liabilities of the bank, as they may have to be returned to the client on future demand.
(C) As part of the bank's demand and time liabilities, making them subject to CRR and SLR requirements.
(D) As part of the bank's own capital base, because they are held in a secure fiduciary capacity.

Ans :

(C) As part of the bank's demand and time liabilities, making them subject to CRR and SLR requirements.

The provided text clearly states that any undeployed funds lying in the 'Clients' Portfolio Account' are to be treated as 'outside borrowings' of the bank. Consequently, these funds become part of the bank's Net Demand and Time Liabilities (NDTL) and are subject to the maintenance of both the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR).

May/June 2015

42. Which statement accurately describes the fee structure for Portfolio Management Services (PMS) offered by a bank?

(A) The bank is not permitted to charge any fee for PMS as it is an ancillary service.
(B) The fee charged shall be a management or consultancy fee independent of the return to the client.
(C) The fee charged must be a performance-based fee directly linked to the returns generated for the client.
(D) The fee charged must be a pre-determined, fixed percentage of the portfolio value, set annually by the RBI.

Ans :

(B) The fee charged shall be a management or consultancy fee independent of the return to the client.

To ensure that PMS is purely an investment consultancy/management service provided at the customer's risk, the regulations delink the bank's remuneration from the portfolio's performance. The fee charged to the client for PMS must be independent of the investment returns. This prevents the service from becoming a performance-guarantee scheme, which is not permitted.

Oct/Nov 2011

43. Agency business of mutual fund companies undertaken departmentally by a bank must be conducted on what basis?

(A) On a profit-sharing basis with the mutual fund company.
(B) On a risk participation basis.
(C) On a fee basis, without any risk participation.
(D) On a guaranteed return basis for the customer.

Ans :

(C) On a fee basis, without any risk participation.

When a bank acts as an agent for a mutual fund, its role is purely that of a distributor. The guidelines mandate that this service must be provided strictly on a fee basis. The bank cannot participate in the investment risk of the mutual fund units. This ensures a clear separation between the bank's role as an agent and the risk-bearing role of the fund itself.

May/June 2025

44. When a bank acts as a corporate agent for insurance, where must the mandatory deposit required by IRDA be maintained?

(A) With the Insurance Regulatory and Development Authority (IRDA) in the form

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exclusively through a separate subsidiary, which can be a newly formed entity or one of its existing subsidiaries, subject to regulatory conditions.

May/June 2012

52. When does a bank need to obtain prior approval from the RBI for making an investment in a Venture Capital Fund (VCF)?
(A) Only if the VCF is unregistered with SEBI, as such funds pose a higher risk.
(B) For making a strategic investment equivalent to more than 10% of the VCF's equity/unit.
(C) For any investment, regardless of the amount, to ensure it aligns with prudential norms.
(D) A bank does not need prior RBI approval, as VCFs are alternative investments outside normal banking.

Ans :

(B) For making a strategic investment equivalent to more than 10% of the VCF's equity/unit.
While banks are permitted to invest in Venture Capital Funds, a significant or strategic investment requires regulatory oversight. The threshold for this is defined as an investment equivalent to more than 10% of the equity or unit capital of the VCF. Any investment exceeding this 10% limit requires the bank to obtain prior approval from the Reserve Bank of India.

Oct/Nov 2008

53. How are a bank's exposures to Venture Capital Funds (VCFs) treated for regulatory purposes?
(A) They are deemed to be on par with equity and reckoned for capital market exposure ceilings.
(B) They are treated as priority sector lending if the VCF invests in specified priority sectors.
(C) They are treated as risk-free investments and deducted from capital due to their long-term nature.
(D) They are exempt from all capital market exposure norms as they are alternative investments.

Ans :

(A) They are deemed to be on par with equity and reckoned for capital market exposure ceilings.
Given the high-risk nature of venture capital investments, exposures to VCFs, whether registered or unregistered, are treated conservatively by the regulator. All such exposures are considered equivalent to direct equity investments. Consequently, they are included in the calculation of the bank's compliance with both the direct and overall capital market exposure ceilings.

May/June 2019

54. A bank wishing to set up a Money Market Mutual Fund (MMMF) must first seek clearance from which authority before approaching SEBI?
(A) Indian Banks' Association (IBA)
(B) Association of Mutual Funds in India (AMFI)
(C) Ministry of Finance
(D) Reserve Bank of India (RBI)

Ans :

(D) Reserve Bank of India (RBI)
Although Money Market Mutual Funds are regulated by SEBI, there is a two-step approval process for banks. A bank that desires to set up an MMMF must first approach the Reserve Bank of India and obtain the necessary clearance for undertaking this additional activity. Only after receiving this initial clearance from the RBI can the bank proceed to approach SEBI for registration.

Oct/Nov 2023

55. A bank has a tie-up with a Liquid Income Scheme of a mutual fund to offer a cheque writing facility to investors. An investor, Mrs. Gita, holds units in this scheme and writes a cheque from this facility account to pay her utility bill to an electricity company. Is this transaction permissible?
(A) No, because cheques drawn on this account should only be in favour of the investor herself.
(B) Yes, as long as there are sufficient units in her account to cover the cheque amount.
(C) Yes, because it is a valid payment for services to a registered biller and is allowed.
(D) No, because this facility can only be used for investments, not for consumer payments.

Ans :

(A) No, because cheques drawn on this account should only be in favour of the investor herself.
The cheque writing facility linked to a mutual fund is not a regular bank account. It is a mechanism for the redemption of units. A key safeguard is that cheques can only be drawn in favour of the investor. Payments to third parties are not permitted. Therefore, Mrs. Gita's cheque

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(A) They must sell the securities on an outright basis at prevailing market prices.
(B) They can undertake ready forward (repo) transactions in Government Securities with these clients.
(C) They can sell securities that they do not currently hold, in anticipation of acquiring them in an auction.
(D) They are allowed to set their own prices, as long as the pricing policy is approved by their board.

Ans :

(A) They must sell the securities on an outright basis at prevailing market prices.
When retailing Government Securities, banks must ensure fair and transparent pricing. The guidelines mandate that transactions with non-bank clients must be on an outright buy/sell basis, and the prices must be based on the ongoing market rates and yields. This prevents banks from charging arbitrary prices and ensures a fair deal for the client.

Oct/Nov 2005

49. A bank with a net worth of ₹600 crore, net NPA of 3.5%, and consistent profits for the last three years wants to become a member of the currency derivatives segment. Based on the eligibility criteria below, is it eligible?
(i) It has a minimum net worth of ₹500 crore
(ii) It has the minimum prescribed capital (including Capital Conservation Buffer)
(iii) Its net NPA does not exceed 3% and
(iv) It has made a net profit in the preceding three financial years."
(A) Yes, because its net worth is above the minimum of ₹500 crore.
(B) No, because its net NPA of 3.5% exceeds the maximum permissible limit of 3%.
(C) Yes, because it has been profitable for the last three years.
(D) No, because its net worth, while sufficient, is not high enough for this type of business.

Ans :

(B) No, because its net NPA of 3.5% exceeds the maximum permissible limit of 3%.
Eligibility requires meeting all conditions simultaneously. While the bank's net worth and profitability meet the criteria, its net NPA level of 3.5% is higher than the maximum allowed threshold of 3%. Failure to meet even one of the prescribed prudential norms, such as the net NPA ceiling, renders the bank ineligible for membership.

May/June 2022

50. A bank that becomes a Professional Clearing Member of the commodity derivatives segment is restricted from which activity?
(A) Undertaking trading in the commodity derivatives segment on its own account.
(B) Clearing and settlement of transactions for its clients and managing their collateral.
(C) Putting in place effective risk control measures like real-time monitoring of client margins.
(D) Fulfilling pay-in obligations to the clearing corporation arising from trades executed by its clients.

Ans :

(A) Undertaking trading in the commodity derivatives segment on its own account.
The role of a Professional Clearing Member (PCM) is strictly to facilitate clearing and settlement for other trading members and their clients. To prevent conflicts of interest and limit the bank's own risk exposure, a bank acting as a PCM is explicitly prohibited from undertaking any proprietary trading in the commodity derivatives segment of the exchange.

Oct/Nov 2014

51. How must a bank offer broking services for the commodity derivatives segment?
(A) Departmentally, through its treasury division which handles other market products.
(B) Only through a separate subsidiary set up for the purpose.
(C) Through any of its designated branches located in major metropolitan areas.
(D) By entering into an agreement with an existing commodity broker and acting as an introducer.

Ans :

(B) Only through a separate subsidiary set up for the purpose.
To ring-fence the risks associated with commodity derivatives broking from the core banking business, regulations mandate a specific structure. Banks are not permitted to offer these services departmentally. They must be channeled

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for marketing or referring their products. This disclosure must be made directly to the customer at the point of sale.

May/June 2013

60. From which financial year was it made mandatory for banks to disclose fees/remuneration received from their bancassurance business in the 'Notes to Accounts' of their Balance Sheets?
(A) Year ending 31st March, 2010
(B) Year ending 31st March, 2005
(C) Year ending 31st March, 2012
(D) Year ending 31st March, 2015

Ans :

(A) Year ending 31st March, 2010
As a step to enhance transparency in the financial statements of banks, the RBI issued instructions making certain disclosures mandatory. Specifically, from the financial year ending on 31st March, 2010, banks were required to disclose the details of fees and remuneration earned from their bancassurance (selling insurance products) business in the 'Notes to Accounts' accompanying their balance sheets.

Oct/Nov 2018

61. Global Bank wants to set up a subsidiary for undertaking insurance business with risk participation. As of March 31 of the previous year, its financials were: Net Worth: ₹950 crore; Net NPA: 2.5%; and it has been profitable for the last 5 years. Based on the given information, is Global Bank eligible to set up the insurance subsidiary?
(A) No, because its net NPA, while low, is still considered too high for entering the insurance business.
(B) No, because its net worth of ₹950 crore is below the minimum requirement of ₹1,000 crore.
(C) Yes, because its net NPA is below 3% and it has a strong profit record.
(D) Yes, because it meets most of the key criteria for financial stability and can seek an exemption.

Ans :

(B) No, because its net worth of ₹950 crore is below the minimum requirement of ₹1,000 crore.
To be eligible to set up an insurance subsidiary with risk participation, a bank must meet all prescribed criteria. A key entry barrier is a minimum net worth of ₹1,000 crore. Since Global Bank's net worth is only ₹950 crore, it fails to meet this essential condition, and is therefore not eligible, despite meeting other criteria like low NPAs and profitability.

May/June 2005

62. A bank is acting as a factor for its client, 'ABC Exporters', on a 'without-recourse' basis for receivables due from an importer, 'XYZ Imports'. The factored amount is ₹50 lakhs. For the purpose of calculating exposure norms, on whom will the bank reckon the ₹50 lakh exposure?
(A) On the bank's own books as a contingent liability.
(B) On ABC Exporters, the assignor.
(C) On XYZ Imports, the debtor.
(D) Equally on both ABC Exporters and XYZ Imports.

Ans :

(C) On XYZ Imports, the debtor.
In 'without-recourse' factoring, the credit risk of non-payment by the debtor is transferred from the client (assignor) to the factor (the bank). Therefore, the ultimate risk for the bank lies with the debtor's ability to pay. Consequently, for regulatory exposure monitoring, the exposure of ₹50 lakhs is reckoned on the debtor, XYZ Imports.

Oct/Nov 2022

63. Assertion (A): A bank providing Portfolio Management Services (PMS) must keep its own investments distinct from the investments belonging to PMS clients.
Reason (R): Transactions between the bank's investment account and a client's portfolio account must be strictly at market rates.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Both statements are correct regulatory requirements for PMS. The assertion states the need for segregation of assets to prevent co-mingling. The reason provides the mechanism to ensure fairness and prevent conflicts of interest

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to the electricity company would not be honored under this facility.

May/June 2007

56. What is the minimum lock-in period for investments in Money Market Mutual Funds (MMMFs) before the cheque writing facility can be availed?
(A) 7 days
(B) 15 days
(C) 30 days
(D) There is no lock-in period.

Ans :

(B) 15 days
To prevent MMMFs from being used as a substitute for savings or current accounts and to ensure stability of funds, a minimum lock-in period is prescribed. Investors can avail the cheque writing facility only after their investment has been held in the MMMF for a minimum period of 15 days. This restriction does not apply to certain Gilt and Liquid Income schemes.

Oct/Nov 2017

57. What was the primary purpose of the 'Safety Net Scheme' proposed by SEBI in 2012?
(A) To create a reserve fund from a transaction tax to compensate investors for any market-wide crash.
(B) To have promoters buy back shares from retail applicants at the IPO price if the stock price falls sharply after listing.
(C) To provide a government guarantee on all Initial Public Offering (IPO) investments up to a certain amount.
(D) To insure banks against losses from their merchant banking activities by creating a pooled fund.

Ans :

(B) To have promoters buy back shares from retail applicants at the IPO price if the stock price falls sharply after listing.
The Safety Net Scheme was a mechanism designed to protect retail investors from significant post-listing price drops in IPOs. Under the proposal, the company's promoters would assure retail applicants that they would buy back the shares at the issue price if the stock performed poorly (fell sharply) within the first six months of listing.

May/June 2024

58. What was the RBI's advice to banks and their subsidiaries regarding the offering of 'Safety Net' facilities?
(A) To refrain from offering such Safety Net facilities, by whatever name they may be called.
(B) To actively promote and offer such schemes as a value-added service to attract retail investors.
(C) To offer such schemes only for public sector unit IPOs to support the government's disinvestment program.
(D) To seek prior approval from SEBI to ensure the terms of the facility are fair and transparent.

Ans :

(A) To refrain from offering such Safety Net facilities, by whatever name they may be called.
The RBI observed that by offering 'Safety Net' facilities, banks were assuming large, un-hedged exposures without commensurate income, as the buy-back obligation would only be triggered by an adverse price movement. Considering this high-risk, low-reward nature, the RBI advised banks and their subsidiaries to completely refrain from offering such facilities, regardless of their name.

Oct/Nov 2009

59. What is the key disclosure requirement for banks regarding commissions earned from marketing mutual fund or insurance products?
(A) Disclosure is required only if the commission exceeds a certain threshold set by the IBA.
(B) Disclose the details of all commissions and fees to the customers being sold the products.
(C) Disclose the details only to the RBI on a confidential basis as part of supervisory reporting.
(D) Disclose only the aggregate commission earned in the annual report without product-wise breakdown.

Ans :

(B) Disclose the details of all commissions and fees to the customers being sold the products.
To promote transparency and enable customers to make informed decisions, banks are mandated to disclose all details of commissions or other fees (in any form) they receive from mutual fund, insurance, or other financial services companies

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May/June 2017

36. After investing in the equity of an insurance subsidiary/JV, what is the minimum net worth the parent bank must maintain?
(A) Not less than ₹250 crore.
(B) Not less than ₹500 crore.
(C) Not less than ₹1,000 crore.
(D) Not less than ₹750 crore.

Ans :

(B) Not less than ₹500 crore.
The regulations ensure that the parent bank remains well-capitalized even after making a significant investment in an insurance venture. A key eligibility criterion is that the bank's minimum net worth, after accounting for the equity investment in the new insurance company, must not fall below ₹500 crore. This preserves the financial strength of the core banking entity.

Oct/Nov 2006

37. Which of the following is NOT an eligibility criterion for a bank to set up a subsidiary for insurance business with risk participation?
(A) Its level of net non-performing assets is not more than 3% of its net advances.
(B) It has made a net profit in the preceding three consecutive financial years.
(C) The track record of the performance of its existing subsidiaries is deemed satisfactory by the RBI.
(D) Its business per employee is the highest in the industry, indicating high operational efficiency.

Ans :

(D) Its business per employee is the highest in the industry, indicating high operational efficiency.
The eligibility criteria focus on financial strength, asset quality, and consistent profitability. These include a net worth of ₹1,000 crore, post-investment net worth of ₹500 crore, net NPAs not exceeding 3%, a three-year profit record, and a satisfactory track record of subsidiaries. Business per employee, while an efficiency metric, is not a prescribed regulatory eligibility condition.

May/June 2020

38. How is a bank permitted to undertake the business of pension fund management?
(A) Only through a subsidiary set up for the purpose.
(B) Only departmentally.
(C) Either departmentally or through a subsidiary.
(D) Through a joint venture with an international pension fund manager.

Ans :

(A) Only through a subsidiary set up for the purpose.
The regulatory framework for pension fund management by banks is very specific. Banks are explicitly prohibited from undertaking this business departmentally. They are required to carry out this activity exclusively through a separate subsidiary established for this purpose, and only after fulfilling the prescribed eligibility criteria, which are similar to those for insurance ventures.

Oct/Nov 2013

39. A bank is permitted to undertake Investment Advisory Services (IAS) through which of the following structures?
(A) Through a tie-up with an individual investment advisor, where the bank acts as a referrer.
(B) Through a separate subsidiary set up for the purpose.
(C) Departmentally, in any of its branches, provided the staff is certified by NISM.
(D) As part of its treasury operations, as it is an extension of market analysis.

Ans :

(B) Through a separate subsidiary set up for the purpose.
To avoid conflicts of interest between advisory and other banking services, the regulations mandate structural separation for Investment Advisory Services. A bank can only provide IAS through a separate subsidiary, either a new one or an existing one. This activity cannot be conducted departmentally. Furthermore, specific prior approval from the regulator is required for this.

May/June 2008

40. According to RBI directions, what is the minimum period for which funds can be accepted for Portfolio Management Services (PMS)?
(A) One year
(B) Three months
(C) Six months
(D) Two years

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when any transaction does occur between them, i.e., it must be at an arm's length market price. The rule in (R) supports and explains how the principle of distinction in (A) is maintained operationally.

May/June 2016

64. Identify the correct statement regarding a bank's investment in an Infrastructure Debt Fund-NBFC (IDF-NBFC).
(A) A bank contributing 25% of the equity is considered a sponsor of the IDF-NBFC.
(B) A bank is prohibited from making any equity investment in an IDF-NBFC.
(C) A bank shall not contribute more than 49% of the equity of an IDF-NBFC.
(D) A bank can contribute a maximum of 51% to the equity of an IDF-NBFC.

Ans :

(C) A bank shall not contribute more than 49% of the equity of an IDF-NBFC.
The regulations set clear limits on a bank's involvement in an IDF-NBFC. A bank's equity contribution is capped at a maximum of 49%, preventing it from becoming a majority shareholder. To be considered a sponsor, a bank must contribute at least 30% of the equity. Therefore, the statement about the 49% maximum contribution is the correct one.

Oct/Nov 2010

65. Which of the following is an INCORRECT pairing of a para-banking activity and its governing regulation/body?
(A) Factoring Services - The Indian Contract Act, 1872
(B) Mutual Fund Business - SEBI (Mutual Funds) Regulations, 1996
(C) Investment Advisory Service - SEBI (Investment Advisors) Regulations, 2013
(D) Pension Fund Management - Pension Fund Regulatory Development Authority (PFRDA)

Ans :

(A) Factoring Services - The Indian Contract Act, 1872
The definitions and regulations for most para-banking activities are derived from specific, modern statutes. While the Indian Contract Act may govern the underlying contracts, the specific activity of 'Factoring' for regulatory purposes is defined under the Factoring Regulation Act, 2011. The other pairings correctly link the activity to its primary governing regulation or authority.

May/June 2021

66. Consider the following statements about a bank's agency business for mutual funds:
1. The bank can buy back mutual fund units from its customers.
2. The purchase of units is at the customer's risk without any guaranteed return from the bank.
3. The bank must forward investor applications to the fund's registrar/transfer agent.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(B) 2 and 3 only
When acting as an agent, the bank is a facilitator. It must forward applications (Statement 3) and clarify that all investment risk lies with the customer (Statement 2). The bank is explicitly prohibited from buying back units from customers (Statement 1 is incorrect), as this would mean taking on market risk, which is not permitted in an agency role.

Oct/Nov 2025

67. Match the activity (List-I) with the required structure (List-II) for a bank to undertake it.
List-I (Activity)
P. Pension Fund Management
Q. Broking services for Commodity Derivatives
R. Investment Advisory Services (IAS)
S. Underwriting of shares
List-II (Structure)
1. Only through a separate subsidiary
2. Either departmentally or through a subsidiary
3. Through a separate subsidiary or one of its existing subsidiaries
(A) P-1, Q-1, R-3, S-2
(B) P-2, Q-3, R-1, S-1
(C) P-1, Q-3, R-2, S-2
(D) P-3, Q-1, R-1, S-2

Ans :

(A) P-1, Q-1, R-3, S-2
Pension Fund Management and Commodity Derivatives Broking must be done only through a separate subsidiary (P-1, Q-1). Investment

NODIA

Advisory Services can be through a new or existing subsidiary (R-3). Underwriting has the most flexibility and can be done either departmentally or through a subsidiary (S-2). This matching correctly aligns each activity with its mandated structural requirement.

May/June 2014

68. Which of the following statements regarding a bank's relationship with its subsidiary is correct?

1. The parent bank shall undertake inspection/ audit of the subsidiary's books.
2. The subsidiary can promote a new company without RBI approval.
3. The bank can grant unsecured advances to the subsidiary without prior RBI approval.
4. Transactions between the bank and its subsidiary shall be at arm's length.

(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 3 and 4 only
(D) All of the above

Ans :

(A) 1 and 4 only
A parent bank must maintain oversight through audits (Statement 1) and ensure all transactions are at arm's length (Statement 4). However, a subsidiary cannot promote a new company without RBI's prior approval (Statement 2 is incorrect). Similarly, a bank cannot grant unsecured advances to its subsidiary without prior approval from the Reserve Bank (Statement 3 is incorrect).

Oct/Nov 2012

69. A bank's aggregate equity investments in all subsidiaries and other entities engaged in financial and non-financial services shall not exceed:

(A) 10% of its Net Worth.
(B) 20% of its Tier 1 Capital.
(C) 20% of its paid-up share capital and reserves.
(D) 10% of its paid-up share capital and reserves.

Ans :

(C) 20% of its paid-up share capital and reserves.
To maintain a diversified asset base and limit concentration risk from equity holdings in other companies, the RBI has established an aggregate ceiling. A bank's total equity investments across all its subsidiaries and other entities (both financial and non-financial) are capped at 20% of its own paid-up share capital and reserves, providing an overall prudential backstop.

May/June 2023

70. What is the primary purpose of requiring banks to disclose commissions earned from para-banking activities to both customers and in financial statements?

(A) To help the government calculate service tax accurately on such income.
(B) To increase transparency and help customers make informed decisions.
(C) To create a public ranking of banks based on their para-banking income.
(D) To ensure commissions are not paid in foreign currency without reporting.

Ans :

(B) To increase transparency and help customers make informed decisions.
The core objective behind the mandatory disclosure of commissions is to enhance transparency. Disclosure to the customer at the point of sale helps them understand the bank's financial interest in the transaction. Disclosure in the bank's financial statements provides transparency to shareholders, analysts, and the public about the quantum and sources of non-interest income from these activities.

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CHAPTER 45

Real Estate Investment Trusts (REITs) & Infrastructure Investment Trusts (INVITs)

Oct/Nov 2018

1. What is the primary purpose of financial instruments like Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)?

(A) To provide direct government funding for nationally significant real estate and infrastructure projects.

(B) To enable individual investors to take stakes in real estate and infrastructure in a manageable manner.

(C) To offer high-risk, high-return investment options exclusively to sophisticated institutional investors.

(D) To entirely replace traditional bank financing for all large-scale urban construction projects.

Ans :

(B) To enable individual investors to take stakes in real estate and infrastructure in a manageable manner.

The main objective of REITs and InvITs is to act as important financial instruments that allow individual investors to participate in large-scale real estate and infrastructure sectors. These trusts pool resources from multiple investors, making it possible for them to invest in these assets without the need for large capital outlays or direct management responsibilities.

May/June 2021

2. How are REITs and InvITs fundamentally similar to Mutual Funds?

(A) They permit investors to pool their resources for investment in assets managed by a designated person.

(B) Their underlying assets are always a balanced mix of equity, debt, and gold for risk mitigation.

(C) They are unlisted instruments available only through private placement to select high-net-worth individuals.

(D) They are mandated by law to invest exclusively in sovereign government securities and bonds.

Ans :

(A) They permit investors to pool their resources for investment in assets managed by a designated person.

REITs and InvITs are structured similarly to Mutual Funds in that they allow numerous investors to pool their money. This collective fund is then used to invest in a portfolio of assets, which are professionally managed by a designated entity. This structure provides diversification and professional management benefits to the individual investors, much like a mutual fund scheme.

NODIA

Oct/Nov 2005

3. What is the key difference in the underlying assets of a typical Mutual Fund compared to a REIT?

(A) Mutual Funds invest in physical commodities like oil and grain, while REITs invest in financial derivatives.

(B) Mutual Funds invest in a diverse mix of equity and debt, while REITs focus on foreign currency markets.

(C) Mutual Funds invest in equity, debt, or gold, while REITs primarily invest in real estate holdings or related loans.

(D) Mutual Funds invest only in low-risk government bonds, while REITs invest only in high-risk commercial office spaces.

Ans :

(C) Mutual Funds invest in equity, debt, or gold, while REITs primarily invest in real estate holdings or related loans.

The fundamental distinction lies in their underlying assets. While a mutual fund's portfolio typically consists of financial instruments like

equity shares, debt securities, or gold, a REIT's portfolio is primarily composed of physical real estate properties (income-generating) or loans that are secured by real estate. This defines their respective investment focus and risk-return characteristics.

May/June 2013

4. According to the role defined for a Sponsor in the formation of a REIT or InvIT, which of the following actions is taken by the Sponsor?
(A) The Sponsor directly manages the assets held by the trust and makes all daily investment decisions.
(B) The Sponsor holds the assets in trusteeship on behalf of unitholders and ensures regulatory compliance.
(C) The Sponsor provides the initial investment capital and then immediately exits the trust completely.
(D) The Sponsor formulates the Trust and appoints a Trustee to oversee it.

Ans :

(D) The Sponsor formulates the Trust and appoints a Trustee to oversee it.
When a company decides to create a REIT or InvIT, it assumes the role of the Sponsor. The Sponsor's primary responsibility is to formulate the trust structure and appoint a Trustee. The Trustee then holds the underlying assets in trusteeship, and these assets are no longer under the direct control of the Sponsor, ensuring separation of roles.

Oct/Nov 2022

5. Which of the following is identified as a major hassle associated with direct investment in real estate, which REITs help to mitigate?
(A) The complex process of calculating and paying annual property taxes and other municipal levies.
(B) The significant market risk that makes it difficult to sell the property for a profit in the future.
(C) The need to get appropriate clearances, find viable tenants, and ensure timely rent collection.
(D) The legal obligation to occupy the property personally, preventing its use as a long-term rental asset.

Ans :

(C) The need to get appropriate clearances, find viable tenants, and ensure timely rent collection.
Direct investment in real estate is often associated with significant hassles. These include navigating the complex process of obtaining clearances from authorities, the challenge of securing long-term leases from reliable tenants, and the effort required to ensure timely receipt of rental income. REITs offer a solution by professionally managing these aspects on behalf of investors.

May/June 2007

6. What is the minimum percentage of a REIT's portfolio that must be invested in completed and rent-generating properties?
(A) 50%
(B) 80%
(C) 60%
(D) 75%

Ans :

(B) 80%
To ensure that a REIT can generate a stable and regular income for its unitholders, regulations mandate a specific investment allocation. At least 80% of the portfolio of a Real Estate Investment Trust must be invested in properties that are already completed and are actively generating rental income. This rule reduces development risk and focuses on stable cash flows.

Oct/Nov 2014

7. In which country and decade were REITs first introduced?
(A) India, in the 1990s
(B) United Kingdom, in the 1980s
(C) Japan, in the 1970s
(D) USA, in the 1960s

Ans :

(D) USA, in the 1960s
Real Estate Investment Trusts (REITs) were first introduced in the United States of America during the 1960s. This was accomplished through the Cigar Excise Tax Extension Act. The primary goal of this legislation was to provide a new investment vehicle for individuals to participate in the real estate sector, thereby boosting real estate development.

May/June 2025

8. When was the first Indian REIT established, and when did its Initial Public Offering (IPO) open?

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(A) Established in 2017, IPO in March 2018
(B) Established in 2007, IPO in March 2010
(C) Established in 2014, IPO in March 2016
(D) Established in 2019, IPO in March 2020

Ans :

(A) Established in 2017, IPO in March 2018
While the concept of REITs was first introduced in India by SEBI in 2007, the first operational Indian REIT, Embassy REIT, was established much later in 2017. Its Initial Public Offering (IPO) was launched in March 2018, marking a significant milestone for the real estate investment landscape in the country and paving the way for subsequent listings.

Oct/Nov 2009

9. In the organisational structure of a REIT, what is the primary function of the Trustee?
(A) To make investment decisions and actively manage the real estate assets.
(B) To sponsor the trust by providing the initial properties for the portfolio.
(C) To hold the real estate assets in trusteeship on behalf of unitholders.
(D) To raise money from the public through the sale of units on stock markets.

Ans :

(C) To hold the real estate assets in trusteeship on behalf of unitholders.
In a REIT's structure, the Trustee plays a crucial custodial and oversight role. Appointed by the Sponsor, the Trustee holds the real estate assets of the trust in its trusteeship. This ensures that the assets are legally separated from the Sponsor and are held for the sole benefit of the unitholders, safeguarding their interests.

May/June 2016

10. What is a Special Purpose Vehicle (SPV) in the context of a REIT, and what is the minimum equity holding required by the Trust in the SPV?
(A) A domestic company holding real estate assets; the Trust must hold at least 50% equity.
(B) An international advisory firm that consults on property acquisition; the Trust must hold 100% equity.
(C) A government agency that regulates REIT compliance; the Trust must hold at least 75% equity.
(D) A software platform for trading REIT units; there is no minimum holding requirement from the Trust.

Ans :

(A) A domestic company holding real estate assets; the Trust must hold at least 50% equity.
A REIT can hold its properties through Special Purpose Vehicles (SPVs). An SPV is a domestic company created to hold the real estate assets on behalf of the REIT. As per regulations, it is mandatory for the REIT to hold a controlling stake, which is defined as at least 50% of the equity in the SPV.

Oct/Nov 2011

11. Who appoints the Manager in a REIT structure, and what is the Manager's primary responsibility?
(A) The Sponsor appoints the Manager to oversee and report on the Trustee's activities.
(B) The unitholders appoint the Manager through a vote to audit the REIT's finances annually.
(C) SEBI appoints the Manager to ensure all regulatory and compliance standards are met.
(D) The Trustee appoints the Manager to manage the assets and make investment decisions.

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Ans :

(D) The Trustee appoints the Manager to manage the assets and make investment decisions.
Within the REIT's organisational framework, the Trustee is responsible for appointing a Manager. The Manager's key role is to professionally manage the real estate assets held by the trust and to make strategic investment decisions on behalf of the trust. The REIT can be registered only after the Manager has been appointed, highlighting the role's importance.

May/June 2020

12. At its most fundamental level, what does a single REIT unit represent for its holder?
(A) A debt instrument with a fixed, guaranteed interest payout schedule.
(B) Part ownership of the real estate assets held by the Trust.
(C) A right to directly manage one of the properties in the trust's portfolio.
(D) A vote in the initial appointment of the Sponsor and Trustee of the trust.

Ans :

(B) Part ownership of the real estate assets held by the Trust.

A REIT unit is analogous to a share in a company. It represents a fractional or part ownership of the underlying portfolio of real estate assets that are held by the Trust. This ownership entitles the unitholder to receive a proportional share of the income, such as rent and capital appreciation, generated by these assets.

Oct/Nov 2017

13. Based on the "Indicative structure" diagram (Figure 45.1), what is the relationship between the REIT, the Investment Manager, and the SPVs?

(A) The Investment Manager directly owns the SPVs and pays a license fee to the REIT.

(B) The REIT holds a stake of at least 50% in the SPVs and receives an asset management fee from the Investment Manager.

(C) The REIT pays an asset management fee to the Investment Manager and holds a stake of at least 50% in the SPVs.

(D) The SPVs pay a portfolio fee to the REIT, which then hires the Investment Manager.

Ans :

(C) The REIT pays an asset management fee to the Investment Manager and holds a stake of at least 50% in the SPVs.

The diagram clearly shows an arrow labeled "Asset management fee" pointing from the REIT to the Investment Manager, indicating a payment. It also shows arrows from the REIT to SPV1 and SPV2, with the label "? 50%", signifying that the REIT must hold at least a 50% stake in the Special Purpose Vehicles that hold the assets.

May/June 2005

14. Which of the following is listed as a benefit for the Sponsor of a REIT?

(A) Gaining complete, direct control over the daily management and strategic direction of the assets.

(B) Receiving a fixed, guaranteed annual income from the Trust irrespective of its market performance.

(C) Total exemption from all forms of corporate, capital gains, and personal income taxation on proceeds.

(D) The ability to monetise revenue-generating assets and access a lower cost of capital.

Ans :

(D) The ability to monetise revenue-generating assets and access a lower cost of capital.

For a Sponsor, creating a REIT is a strategic financial move. It allows the Sponsor to monetise its existing income-generating assets by selling them to the trust, thereby unlocking capital. This process also helps in lowering the overall cost of capital by tapping into a diverse set of long-term investors, such as pension funds.

Oct/Nov 2024

15. What is one of the key tax benefits for an investor in a REIT as described in the chapter?

(A) A concessional tax rate on long-term capital gains for units held over one year.

(B) All income received from the trust, including dividends and all capital gains, is completely tax-free for the investor.

(C) Capital gains from the sale of units are taxed at a single, low flat rate of 5% regardless of the holding period.

(D) Dividend income is taxed at a special preferential rate of 10%, which is always lower than the investor's marginal slab rate.

Ans :

(A) A concessional tax rate on long-term capital gains for units held over one year.

A significant tax benefit is the treatment of Long-Term Capital Gains (LTCG). For units held for more than one year, gains are taxed at a concessional rate of 10% on the amount exceeding ₹1 lakh. This is often more favorable than tax rates on other forms of income and is designed to encourage long-term investment.

May/June 2019

16. Consider the following statements regarding the benefits of REITs:

Statement 1: A benefit for the Sponsor is the ability to tap into long-term investors like pension funds, thereby lowering the cost of capital.

Statement 2: A benefit for the Investor is the ability to invest in real estate without actually owning the asset directly.

Which of the statements is/are correct?

(A) Only Statement 1

(B) Only Statement 2

(C) Both Statement 1 and Statement 2

(D) Neither Statement 1 nor Statement 2

Ans :

(C) Both Statement 1 and Statement 2

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Both statements accurately reflect the benefits outlined. Sponsors benefit by lowering their cost of capital through access to a broad investor base, including institutional players like pension funds. Investors benefit by gaining exposure to the real estate asset class and its potential returns without the complexities and large capital requirements of direct property ownership.

Oct/Nov 2006

17. Identify the incorrect statement regarding the benefits available to a REIT investor.
(A) Investors can invest in infrastructure or real estate without owning the asset directly.
(B) Investors are subject to a withholding tax of 15% for interest income if they are non-residential unit holders.
(C) Investors benefit from mandatory dividend payouts of at least 90% of distributable income.
(D) Investors benefit from a concessional long-term capital gains tax rate on the sale of units.

Ans :

(B) Investors are subject to a withholding tax of 15% for interest income if they are non-residential unit holders.
The text states that non-residential unit holders are subject to a withholding tax at 5% for interest income, making the 15% figure incorrect. The other statements are correct benefits for investors, including the ability to invest indirectly, enjoy mandatory high dividend payouts, and receive favorable long-term capital gains tax treatment under specific conditions.

May/June 2012

18. An infrastructure company is looking to unlock capital from its completed toll road projects and fund new highway construction. Which benefit of forming a trust like a REIT or InvIT is most relevant to this company's goal?
(A) Monetising revenue-generating assets and having diverse sources of funding.
(B) Enjoying favourable tax treatment like exemption from dividend distribution tax at the trust level.
(C) Providing favorable tax norms and high liquidity for its future investors.
(D) Providing a regular source of capital to the entire infrastructure sector once listed.

Ans :

(A) Monetising revenue-generating assets and having diverse sources of funding.
The company's primary goal is to unlock capital from existing assets to fund new ones. Forming a trust allows it to do precisely this by selling the revenue-generating toll roads to the trust in exchange for upfront cash raised from investors. This process is known as monetising assets and provides access to diverse funding sources.

Oct/Nov 2015

19. Which type of REIT is required to invest at least 24% of its assets into properties like shopping malls and freestanding retail stores?
(A) Office REITs
(B) Residential REITs
(C) Retail REITs
(D) Healthcare REITs

Ans :

(C) Retail REITs
As per the classification based on the sectors in which they operate, Retail REITs have a specific mandate. They are required to invest a minimum of 24% of their total assets into commercial retail properties. This includes large-format shopping malls as well as individual, freestanding retail stores, focusing their portfolio on the retail sector.

May/June 2023

20. A REIT that primarily owns and operates manufactured housing, rental apartment buildings, and gated communities falls under which category?
(A) Residential REITs
(B) Healthcare REITs
(C) Office REITs
(D) Mortgage REITs

Ans :

(A) Residential REITs
Residential REITs are specifically focused on the housing sector. Their portfolios consist of properties that are meant for residential purposes, such as rental apartment complexes, manufactured housing communities, and gated residential communities. This type of REIT capitalizes on the consistent demand for housing and rental income derived from these properties.

Oct/Nov 2010

21. Which of the following is NOT a type of REIT classified based on the sector of operation?

NODIA

(B) ₹0 (as the gain is below ₹1 lakh)
(C) ₹8,000 (10% of ₹80,000)
(D) ₹4,000 (5% of ₹80,000)

Ans :

(B) ₹0 (as the gain is below ₹1 lakh)
Mr. Sharma held the units for more than one year (Jan 2022 to Mar 2023), so the gains are classified as Long-Term Capital Gains (LTCG). The LTCG tax rate for REITs is 10% on gains exceeding ₹1 lakh. Since his total gain is ₹80,000, which is below the ₹1 lakh threshold, his tax liability is zero.

Oct/Nov 2020

39. An investor sells REIT units after holding them for 10 months. Which tax rule will apply to the capital gains from this transaction?
(A) Long-Term Capital Gains tax at 10% on gains above ₹1 lakh.
(B) The gains will be added to income and taxed at the slab rate.
(C) The transaction will be tax-exempt.
(D) Short-Term Capital Gains tax at 15%.

Ans :

(D) Short-Term Capital Gains tax at 15%.
The holding period for determining the nature of capital gains on REIT units is one year. Since the investor held the units for only 10 months, which is less than one year, the gains are considered Short-Term Capital Gains (STCG). Consequently, the applicable tax is a flat rate of 15% on the entire profit from the sale.

May/June 2022

40. According to SEBI (REITs) Regulations, 2014, what is the minimum holding requirement for a Sponsor in the investment trust post-initial offer?
(A) Not less than 25% of total units for at least three years.
(B) Not less than 15% of total units for at least one year.
(C) Not less than 51% of total units for at least five years.
(D) Not less than 10% of total units with no lock-in period.

Ans :

(A) Not less than 25% of total units for at least three years.
The regulations impose a lock-in requirement on the Sponsor to ensure their continued commitment and alignment of interests with other unitholders. The Sponsor is mandated to hold at least 25% of the total units of the REIT on a post-issue basis for a minimum period of three years from the date of the units' listing.

Oct/Nov 2023

41. What is the maximum percentage of a REIT's value that can be invested in 'under-construction' projects?
(A) 20%
(B) 25%
(C) 10%
(D) 50%

Ans :

(C) 10%
To maintain a focus on stable, income-generating assets and limit development risk, SEBI regulations place a cap on investments in projects that are not yet complete. A REIT is allowed to invest not more than 10% of the value of its assets in 'under-construction' projects, with the majority (not less than 80%) in completed, revenue-generating properties.

May/June 2017

42. As per regulatory guidelines, what is the minimum percentage of assets a Special Purpose Vehicle (SPV) of a REIT must hold directly in properties?
(A) 80%
(B) 50%
(C) 75%
(D) 90%

Ans :

(A) 80%
The regulations for REITs stipulate specific rules for the Special Purpose Vehicles (SPVs) that hold the assets. An SPV is required to hold not less than 80% of its assets directly in properties. This rule ensures that the SPV's primary activity is holding the underlying real estate and not diverting funds to other investments.

Oct/Nov 2018

43. Which of the following activities is an SPV of a REIT prohibited from engaging in?
(A) Holding properties on behalf of the trust.
(B) Managing the properties it holds.
(C) Entering into lease agreements with tenants.
(D) Investing in other SPVs.

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(A) Equity REIT
(B) Mortgage REIT
(C) Hybrid REIT
(D) Diversified REIT

Ans :

(C) Hybrid REIT
A Hybrid REIT combines the investment strategies of both Equity REITs and Mortgage REITs. Its portfolio includes a mix of direct ownership in income-producing real estate properties and investments in real estate-backed debt, such as mortgages. This blended approach aims to provide a combination of rental income, interest income, and capital appreciation for its investors.

May/June 2025

26. While both REITs and real estate mutual funds offer liquidity and exposure to real estate, what is a key advantage REITs have over real estate mutual funds, especially during inflationary periods?
(A) Real estate mutual funds typically offer wider diversification across multiple countries.
(B) Real estate mutual funds are managed by more experienced professional managers.
(C) REITs have significantly lower initial investment requirements for entry.
(D) REITs tend to distribute a higher amount of dividend income.

Ans :

(D) REITs tend to distribute a higher amount of dividend income.
During times of inflation, property prices and rents tend to rise. Since REITs derive their income directly from these rents, their revenue increases, leading to better returns for investors. Consequently, REITs typically distribute a higher amount of dividend to their unitholders each year compared to real estate mutual funds, which may have a more diversified but less direct exposure.

Oct/Nov 2019

27. Which advantage of investing in REITs allows an investor to gain exposure to the real estate sector without the complexities of direct ownership?
(A) Regular Income Generation
(B) Capital Gains
(C) Professional Management
(D) Diversification

Ans :

(D) Diversification
Diversification in this context refers to adding a new asset class, real estate, to an investment portfolio that typically consists of equity, debt, and gold. REITs allow an investor to achieve this diversification and gain exposure to commercial real estate without the associated hassles of directly owning, managing, and maintaining the properties themselves.

May/June 2009

28. What is the mandatory percentage of income that REITs must distribute to their investors as dividends and interest payments?
(A) 90%
(B) 75%
(C) 80%
(D) 100%

Ans :

(A) 90%
A key feature and advantage of REITs is the commitment to regular income distribution. Regulations mandate that REITs must distribute at least 90% of their net distributable income, which is primarily generated from rental collections, to their unitholders. This income is distributed in the form of dividends and interest payments, providing a steady cash flow.

Oct/Nov 2021

29. Which of the following is identified as a primary disadvantage of investing in REITs in the current Indian market?
(A) Unfavorable capital gains tax rates that are much higher compared to other asset classes.
(B) The requirement for a very large initial investment amount, making it inaccessible for retail investors.
(C) Limited market options and low liquidity due to a small number of listed REITs.
(D) The high risk of widespread fraud and mismanagement due to a general lack of SEBI regulation.

Ans :

(C) Limited market options and low liquidity due to a small number of listed REITs.
The chapter points out that currently, there are only a few listed REITs in India, which significantly limits the choices available to

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(A) Healthcare REITs
(B) Office REITs
(C) Residential REITs
(D) Hybrid REITs

Ans :

(D) Hybrid REITs
Hybrid REITs are a category of REITs based on the type of funding they provide (a mix of equity and mortgage investments), not the physical sector they operate in. The other options—Healthcare REITs, Office REITs, and Residential REITs—are all distinct types classified based on the specific real estate sector they invest in, such as hospitals, office spaces, or apartments.

May/June 2018

22. What is the primary difference between an Equity REIT and a Mortgage REIT?
(A) Equity REITs exclusively invest in commercial office spaces and large buildings, while Mortgage REITs focus only on residential properties.
(B) Equity REITs are typically structured as privately held and unlisted entities, while Mortgage REITs are always publicly listed on major stock exchanges.
(C) Equity REITs are required to distribute their income as fixed interest payments, while Mortgage REITs must distribute it as variable dividends.
(D) Equity REITs own properties and earn rental income, while Mortgage REITs lend money and earn interest.

Ans :

(D) Equity REITs own properties and earn rental income, while Mortgage REITs lend money and earn interest.
The distinction lies in their business model. Equity REITs are property owners; they purchase real estate, lease it out, and generate income from rents, which is then distributed as dividends. In contrast, Mortgage REITs do not own physical property but instead provide financing (mortgages) to property owners and earn income from the interest on these loans.

Oct/Nov 2016

23. A REIT that generates its earnings via Net Interest Margin, which is the difference between the interest earned on mortgages and the cost of funding those loans, is known as a:
(A) Equity REIT
(B) Hybrid REIT
(C) Mortgage REIT
(D) Retail REIT

Ans :

(C) Mortgage REIT
This description perfectly defines the revenue model of a Mortgage REIT. They act as lenders in the real estate market, not owners. Their profitability is derived from the spread, or Net Interest Margin, between the interest income they receive from the mortgage loans they issue and their own cost of borrowing the funds to finance these loans.

May/June 2014

24. Match the type of REIT with its primary investment focus.
List-I (REIT Type)
P. Healthcare REIT
Q. Office REIT
R. Residential REIT
S. Retail REIT
List-II (Investment Focus)
1. Shopping malls and freestanding stores
2. Hospitals, nursing facilities, and medical centres
3. Rental apartment buildings and gated communities
4. Office space with long-term lease arrangements
(A) P-2, Q-4, R-3, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-3, R-4, S-1
(D) P-3, Q-4, R-1, S-2

Ans :

(A) P-2, Q-4, R-3, S-1
Healthcare REITs (P) focus on medical facilities like hospitals (2). Office REITs (Q) invest in office spaces and rely on long-term leases (4). Residential REITs (R) own properties like apartment buildings (3). Retail REITs (S) invest in commercial retail properties such as shopping malls (1). The correct matching reflects these specific investment areas.

Oct/Nov 2007

25. An investment trust that holds a portfolio consisting of both physical, rent-generating properties and mortgages on other properties would be classified as a:

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row, the cell corresponding to 'REITs' states 'Liquid investment'. In contrast, the cell for 'Direct Property Ownership' clearly states 'Illiquid investment'. This highlights the superior liquidity of listed REIT units over physical real estate, which is difficult to sell quickly.

May/June 2008

34. Based on the comparison table (Figure 45.2), which two modes of real estate investment offer a 'Diversified portfolio'?

(A) REITs and Real Estate Company Equity
(B) REITs and Direct Property Ownership
(C) Real Estate Company Equity and Corporate Property Bonds
(D) Direct Property Ownership and Corporate Property Bonds

Ans :

(A) REITs and Real Estate Company Equity
According to the 'Diversity' row in the comparison table, both 'REITs' and 'Real Estate Company Equity' are described as offering a 'Diversified portfolio'. In contrast, 'Direct Property Ownership' and 'Corporate Property Bonds' are associated with 'Concentration risk', as they typically represent investment in a single property or are tied to a specific company's debt.

Oct/Nov 2013

35. As per the taxation guidelines for REITs, how is dividend income received by an investor treated?

(A) It is completely tax-exempt in the hands of the investor.
(B) It is taxed at a flat rate of 10% irrespective of the investor's income.
(C) It is included in the investor's annual income and taxed at their applicable slab rate.
(D) It is taxed at a flat rate of 15% as if it were a short-term capital gain.

Ans :

(C) It is included in the investor's annual income and taxed at their applicable slab rate.
The guidelines state that dividends obtained from REITs are fully taxable in the hands of the investor. These dividend payouts are added to the investor's total annual income for the financial year. The entire amount is then taxed according to the income tax slab rate that is applicable to that individual investor, with no special concessional rate.

May/June 2015

36. What is the tax rate for Short-Term Capital Gains (STCG) on the sale of REIT units, and what is the qualifying holding period?

(A) 10% tax rate; holding period of two years or less.
(B) 20% tax rate; holding period of three years or less.
(C) 15% tax rate; holding period of 18 months or less.
(D) 15% tax rate; holding period of one year or less.

Ans :

(D) 15% tax rate; holding period of one year or less.
Short-Term Capital Gains (STCG) tax is applicable if REIT units are sold within a specific timeframe. The qualifying holding period for STCG is one year or less from the date of the unit's allocation. The gains obtained from such a sale are taxed at a flat rate of 15%, as specified in the taxation guidelines.

Oct/Nov 2012

37. For Long-Term Capital Gains (LTCG) on the sale of REIT units, what is the applicable tax treatment?

(A) 10% tax on gains exceeding ₹1 lakh, with indexation benefit.
(B) 20% tax on all gains, with indexation benefit.
(C) 10% tax on gains exceeding ₹1 lakh, with no indexation benefit.
(D) 15% tax on all gains, with no indexation benefit.

Ans :

(C) 10% tax on gains exceeding ₹1 lakh, with no indexation benefit.
If REIT units are held for more than one year, LTCG rules apply upon their sale. The tax rate is 10% on the portion of the capital gains that exceeds ₹1 lakh in a financial year (across all applicable equity investments). Crucially, this tax is levied without providing the investor with the benefit of indexation.

May/June 2011

38. An investor, Mr. Sharma, purchased REIT units on January 15, 2022, and sold them on March 20, 2023, for a capital gain of ₹80,000. What is his tax liability on this gain?

(A) ₹12,000 (15% of ₹80,000)

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investors. Furthermore, the number of market participants, especially retail investors, is low. This results in lower trading volumes and, consequently, low liquidity, making it potentially difficult to sell units profitably in an emergency.

May/June 2010

30. Identify the incorrect statement regarding the advantages of investing in REITs compared to direct property investment.

(A) REITs disclose their capital portfolio annually.
(B) Investing in REITs is less capital intensive.
(C) REITs have lower liquidity risk compared to direct real estate.
(D) REITs are regulated by SEBI, reducing the chances of fraud.

Ans :

(A) REITs disclose their capital portfolio annually.
While the other statements are correct advantages, the disclosure frequency is misstated. The text mentions that REITs are transparent as they disclose their capital portfolio semi-annually, not annually. This regular disclosure provides investors with timely information about the trust's holdings and performance, enhancing transparency in the investment.

Oct/Nov 2008

31. An investor with a portfolio concentrated in equity and gold wants to add real estate for diversification but only has ₹20,000 to invest and lacks the expertise to manage a property. Which feature of a REIT would be most appealing to this investor?

(A) The low initial investment and professional asset management.
(B) The high potential for significant capital gains from short-term market fluctuations and timing.
(C) The mandatory 90% income distribution rule which guarantees a steady quarterly cash flow.
(D) The generally low liquidity of the investment, which makes it a stable, long-term holding compared to stocks.

Ans :

(A) The low initial investment and professional asset management.
The investor's situation is characterized by a limited investment amount (₹20,000) and a lack of management expertise. REITs directly address these issues by allowing small initial investments (around ₹15,000) and providing professional management of the underlying real estate assets. This combination makes REITs a suitable vehicle for this specific investor's needs, overcoming the high-entry barrier of direct property investment.

May/June 2006

32. Consider the following statements:
Statement 1: A key problem with direct real estate investment is the large ticket size, which REITs solve by requiring a much smaller initial investment.
Statement 2: A disadvantage of REITs is their low liquidity, as the number of market participants is currently high, especially retail investors.
Which of the statements is/are correct?

(A) Only Statement 1 is correct.
(B) Only Statement 2 is correct.
(C) Both Statement 1 and Statement 2 are correct.
(D) Neither Statement 1 nor Statement 2 is correct.

Ans :

(A) Only Statement 1 is correct.
Statement 1 is correct; REITs make real estate accessible with small initial investments (e.g., around ₹15,000), unlike the large capital needed for direct purchase. Statement 2 is incorrect because it contains a contradiction. While low liquidity is a disadvantage, the reason is that the number of participants is currently low, not high.

Oct/Nov 2025

33. Refer to the table "Comparison Between Different Modes of Investment in Real Estate" (Figure 45.2). How is the 'Liquidity' of a REIT investment characterized compared to 'Direct Property Ownership'?

(A) Both are characterized as 'Liquid investment'.
(B) REIT is 'Liquid investment', while Direct Property Ownership is 'Illiquid investment'.
(C) REIT is 'Low Liquid investment', while Direct Property Ownership is 'Liquid investment'.
(D) Both are characterized as 'Illiquid investment'.

Ans :

(B) REIT is 'Liquid investment', while Direct Property Ownership is 'Illiquid investment'.
The table in Figure 45.2 explicitly compares different investment modes. In the 'Liquidity'

NODIA

Ans :

(D) Investing in other SPVs.
The regulatory framework is designed to prevent complex, layered structures that could reduce transparency. A key guideline states that a Special Purpose Vehicle (SPV) is not permitted to invest in other SPVs. Its role is confined to holding the underlying properties directly and activities that are incidental to the ownership and management of those specific projects.

May/June 2021

44. To ensure transparency, how often must a full valuation of a REIT's assets be conducted by an independent valuer?
(A) At least once every two years.
(B) At least once every six months.
(C) Only when the REIT acquires a new property.
(D) At least once a year.

Ans :

(D) At least once a year.
A key stipulation for ensuring transparency and providing investors with an accurate assessment of their investment's worth is the requirement for regular valuation. The regulations mandate that a full valuation of the REIT's assets must be conducted by an independent, qualified valuer at least once every year, ensuring an up-to-date and unbiased asset value.

Oct/Nov 2005

45. What is the regulatory requirement for the distribution of net distributable cash flow from an investment trust to its unit holders?
(A) Not less than 90% to be distributed at least once every six months.
(B) Not less than 80% to be distributed at least once a year.
(C) 100% to be distributed at least once a quarter.
(D) Not less than 75% to be distributed at least once every two years.

Ans :

(A) Not less than 90% to be distributed at least once every six months.
The regulations mandate a high payout ratio to ensure regular income for investors. An investment trust is required to distribute not less than 90% of its net distributable cash flow to the unitholders. Furthermore, these distributions must be declared and made at least once every six months, ensuring a bi-annual income stream.

May/June 2013

46. Under what condition can a REIT or its SPV retain the proceeds from the sale of an asset instead of distributing them?
(A) If the sale of the asset resulted in a significant and officially documented capital loss.
(B) If the unitholders vote with a supermajority to retain the proceeds for future unspecified use.
(C) The proceeds from an asset sale must always be distributed in full to the unitholders.
(D) If the proceeds are reinvested into another eligible property or asset.

Ans :

(D) If the proceeds are reinvested into another eligible property or asset.
The distribution rules provide an exception for asset sales. If an asset is sold by the trust or its SPV, the proceeds do not need to be distributed if they are used for reinvestment into another eligible property or infrastructure asset. If no such reinvestment is made, the trust must distribute at least 90% of the sale proceeds.

Oct/Nov 2022

47. What is the maximum permissible limit for the aggregate consolidated borrowing and deferred payment of a REIT, net of cash and cash equivalents?
(A) It should never exceed 25% of the value of the investment trust assets.
(B) It should never exceed 75% of the value of the investment trust assets.
(C) There is no specified regulatory limit on the level of borrowing.
(D) It should never exceed 49% of the value of the investment trust assets.

Ans :

(D) It should never exceed 49% of the value of the investment trust assets.
To maintain financial stability and manage risk, regulations impose a leverage restriction on REITs. The total aggregate consolidated borrowing and deferred payments of the investment trust, after deducting cash and cash equivalents, is capped and should never exceed 49% of the total value of the investment trust's assets. This limits the overall debt level.

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Ans :

(D) Established under the Indian Trust Act, 1882, and regulated by SEBI.
The legal and regulatory framework for Infrastructure Investment Trusts (InvITs) is clearly defined. They are legally established as trusts under the provisions of the Indian Trust Act, 1882. The primary regulatory oversight, including rules for their formation, operation, and listing, is provided by the Securities and Exchange Board of India (SEBI) through its specific InvIT Regulations.

Oct/Nov 2011

53. Which of the following is NOT a financial instrument mentioned for financing infrastructure-related projects, prior to the widespread use of InvITs?
(A) National Investment and Infrastructure Fund (NIIF)
(B) Toll Operate Transfer (TOT) Model
(C) Cryptocurrency Bonds
(D) Foreign Direct Investment (FDI)

Ans :

(C) Cryptocurrency Bonds
The chapter lists several financial instruments and models that have been used to finance infrastructure projects. These include the National Investment and Infrastructure Fund (NIIF), the Toll Operate Transfer (TOT) Model, Foreign Direct Investment (FDI), and Mutual Funds. Cryptocurrency Bonds are not mentioned as a conventional or recognized instrument for this purpose in the text.

May/June 2020

54. What is the maximum number of sponsors an Infrastructure Investment Trust (InvIT) can have?
(A) Three
(B) One
(C) Five
(D) There is no limit.

Ans :

(A) Three
The organisational structure of an InvIT has specific regulatory constraints. One of these rules pertains to the number of sponsors that can form the trust. According to the regulations, an InvIT is permitted to have a maximum of three sponsors, who are typically the original developers or owners of the underlying infrastructure assets.

Oct/Nov 2017

55. What is the mandatory minimum stake and holding period for Sponsors in an InvIT after its formation?
(A) Minimum 10% stake for at least 1 year.
(B) Minimum 25% stake for at least 3 years.
(C) Minimum 51% stake for at least 5 years.
(D) Minimum 15% stake for at least 3 years.

Ans :

(D) Minimum 15% stake for at least 3 years.
To ensure the sponsor's "skin in the game" and long-term commitment, regulations mandate a specific holding requirement. InvIT Sponsors are required to mandatorily hold a minimum stake of 15% in the Trust. This holding must be maintained for a lock-in period of at least 3 years after the formation of the trust.

May/June 2005

56. In an InvIT structure, what is the key difference between the role of an Investment Manager and a Project Manager?
(A) The Investment Manager makes new investment decisions, while the Project Manager ensures smooth operations of existing projects.
(B) The Investment Manager holds the assets of the trust in trusteeship, while the Project Manager handles all legal and regulatory compliance.
(C) The Investment Manager is directly appointed and overseen by SEBI, while the Project Manager is appointed by a vote of the unitholders.
(D) There is no functional difference between the two; the terms are used interchangeably for the entity that manages all trust activities.

Ans :

(A) The Investment Manager makes new investment decisions, while the Project Manager ensures smooth operations of existing projects.
An InvIT typically has two distinct managerial roles. The Investment Manager is responsible for ensuring existing assets provide expected returns and for making new investment decisions to grow the trust. The Project Manager, often a specialist company, focuses on the operational aspect, ensuring smooth functioning of

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completed projects and timely delivery of under-construction ones.

Oct/Nov 2024

57. Which entity in the InvIT organisation is responsible for holding the assets in trusteeship to safeguard unitholder interests and overseeing the managers' activities?
(A) The Sponsor
(B) The Project Manager
(C) The Investment Manager
(D) The Trustee

Ans :

(D) The Trustee
The Trustee, which must be a SEBI-approved company with a proven track record, acts as the custodian for the unitholders. Its primary responsibilities include holding the InvIT's assets in trusteeship to protect investor interests, ensuring the timely distribution of dividends, and providing oversight on the activities and decisions of the InvIT's managers.

May/June 2019

58. Assertion (A): In an InvIT, the units held by general investors are freely tradeable from the listing date with no lock-in period.
Reason (R): The Sponsors of an InvIT are mandatorily required to hold a minimum 15% stake for at least 3 years.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(B) Both A and R are true but R is not the correct explanation of A.
Both statements are factually correct based on the text and the organizational diagram. General investors' units are liquid and freely tradeable (A is true). Sponsors do have a 15% stake lock-in for 3 years (R is true). However, the sponsor's lock-in is to ensure their commitment and alignment of interests, not the reason why investor units are liquid. The liquidity comes from being listed and traded on a stock exchange.

NODIA

Oct/Nov 2006

59. Identify the incorrect statement regarding the organisation of an InvIT.
(A) The Sponsor is usually an infrastructure development company that originally built or operated the assets.
(B) An InvIT can have a maximum of three sponsors.
(C) The Trustee's key responsibility is to make new investment decisions for the trust.
(D) The Project Manager specializes in developing and operating infrastructure projects.

Ans :

(C) The Trustee's key responsibility is to make new investment decisions for the trust.
This statement incorrectly assigns the role of the Investment Manager to the Trustee. The Trustee's role is custodial and supervisory—holding assets and overseeing managers. The responsibility for making new investment decisions to ensure the growth of the InvIT's assets lies with the Investment Manager, not the Trustee. The other statements are correct.

May/June 2012

60. What is the primary rationale for an infrastructure company to form an InvIT?
(A) To raise non-debt capital from investors to pay off existing debt or fund future growth.
(B) To significantly increase its corporate debt levels by issuing bonds to fund large-scale new infrastructure projects.
(C) To gain exclusive access to special government subsidies and tax grants that are available only to trust structures.
(D) To completely transfer the operational responsibility and day-to-day management of its projects to a SEBI-appointed body.

Ans :

(A) To raise non-debt capital from investors to pay off existing debt or fund future growth.
Infrastructure firms are often burdened with high debt and long recovery periods. Forming an InvIT allows them to sell units to investors, raising equity-like capital without taking on more debt. This fresh capital can then be strategically used to deleverage their balance sheet by paying off existing loans or to finance new projects, ensuring business sustainability.

Oct/Nov 2015

61. According to a government report on InvIT activity in India, which asset class holds the largest share of the total Assets Under Management (AUM) of ₹1.4 lakh crores?
(A) Telecom (₹42,000 crores)
(B) Gas pipeline (₹16,500 crores)
(C) Toll roads (₹47,500 crores)
(D) Power transmission (₹14,000 crores)

Ans :

(C) Toll roads (₹47,500 crores)
The text provides a breakdown of the total AUM of active InvITs in India. It states that the bulk of the assets are under toll roads, amounting to ₹47,500 crores. This figure is the highest among the options provided, making it the asset class with the largest share of the total AUM mentioned in the report.

May/June 2023

62. The first InvIT launched by a public sector entity in India was by which corporation?
(A) National Highways Authority of India (NHAI)
(B) Indian Railway Finance Corporation (IRFC)
(C) Gas Authority of India Limited (GAIL)
(D) Power Grid Corporation

Ans :

(D) Power Grid Corporation
The chapter notes a significant development in the Indian InvIT market. It explicitly states that the first InvIT from a public sector entity was recently launched by the Power Grid Corporation. This launch involved monetising assets worth ₹7,800 crores and marked the entry of government-owned entities into this investment space, which was previously dominated by private sector sponsors.

Oct/Nov 2010

63. Which of the following is NOT one of the five types of InvITs classified by the type of infrastructure they own or operate, as per SEBI Regulations?
(A) Energy, such as power generation and distribution.
(B) Social and Commercial Infrastructure, such as parks.
(C) Aviation, such as airline companies.
(D) Communications, such as optical fibre networks.

Ans :

(C) Aviation, such as airline companies.
The text lists five categories of infrastructure for InvITs based on SEBI regulations. These include Energy, Transport & Logistics, Communications, Social and Commercial Infrastructure, and Water and Sanitation. While airports are part of infrastructure, 'Aviation, such as airline companies' is not listed as a category; the focus is on physical assets, not the service operators.

May/June 2018

64. From the viewpoint of source of funds, InvITs can be categorized into which two types?
(A) Domestic InvITs and International InvITs
(B) Equity InvITs and Debt InvITs
(C) Government InvITs and Corporate InvITs
(D) Public listed InvITs and Privately held InvITs

Ans :

(D) Public listed InvITs and Privately held InvITs
The chapter classifies InvITs based on their funding source and accessibility to investors. The two categories are Public-listed InvITs, whose units are traded on a stock exchange and are available to all investors, and Privately-held InvITs, which are not listed and whose units are held by a limited number of private individuals or institutions.

Oct/Nov 2016

65. What is a key characteristic of a Privately-Held InvIT?
(A) It is not listed on the stock exchange and its units cannot be bought or sold there.
(B) Its units are traded on the stock exchange but only by qualified institutional investors.
(C) It is required to distribute only 50% of its net distributable cash flow to unitholders.
(D) It must invest 100% of its assets in under-construction infrastructure projects.

Ans :

(A) It is not listed on the stock exchange and its units cannot be bought or sold there.
A Privately-Held InvIT is defined by its unlisted status. Unlike its public counterpart, this type of infrastructure trust is not listed on any stock exchange. Consequently, its units are not available for public trading and are held privately by a small, limited group of individuals

NODIA

May/June 2007

48. At what level of borrowing does a REIT require a credit rating from a registered agency for any further borrowing?
(A) When borrowing exceeds 25% of the value of the assets.
(B) When borrowing exceeds 10% of the value of the assets.
(C) When borrowing exceeds 49% of the value of the assets.
(D) A credit rating is required for all borrowings, regardless of the level.

Ans :

(A) When borrowing exceeds 25% of the value of the assets.
The leverage restrictions include a tiered approach to risk management. While the absolute borrowing cap is 49%, a specific requirement is triggered earlier. If the aggregate consolidated borrowing (net of cash) exceeds 25% of the asset value, the REIT must obtain a credit rating from a registered credit rating agency before undertaking any further borrowing.

Oct/Nov 2014

49. What recent change did SEBI introduce to improve liquidity in REITs, regarding the minimum investment amount and trading lot?
(A) Minimum investment increased to ₹1,00,000; trading lot to 500 units.
(B) Minimum investment remained at ₹50,000; trading lot reduced to 10 units.
(C) Minimum investment reduced to ₹15,000; trading lot to one unit.
(D) Minimum investment reduced to ₹25,000; trading lot to 100 units.

Ans :

(C) Minimum investment reduced to ₹15,000; trading lot to one unit.
To enhance liquidity and encourage wider retail participation, SEBI revised the investment regulations for REITs. The minimum investment amount was significantly brought down from the earlier ₹50,000 to ₹15,000. Simultaneously, the trading lot in the secondary market was revised to a single unit, making it much more accessible for small investors to trade.

May/June 2025

50. According to the Finance Ministry reports cited, what is the estimated infrastructure spending need for India by the year 2040?
(A) USD 4.5 trillion
(B) USD 1.5 trillion
(C) USD 2.5 trillion
(D) USD 5.5 trillion

Ans :

(A) USD 4.5 trillion
The chapter highlights the massive capital requirement for India's infrastructure development. Citing recent reports from the Finance Ministry, it states that India is projected to need an investment of USD 4.5 trillion in its infrastructure sector by the year 2040 to support its economic growth and improve community well-being, underscoring the need for financing vehicles like InvITs.

Oct/Nov 2009

51. Which of the following sectors is NOT listed as being included in the definition of infrastructure for investment purposes?
(A) Roads and Ports
(B) Power and Railways
(C) Telecommunication and Energy
(D) Information Technology Services

Ans :

(D) Information Technology Services
The text provides a list of sectors that are generally included under the umbrella of infrastructure. This list includes physical assets like Roads, Ports, Power, Railways, Airports, Telecommunication, Energy, and production of Coal, petroleum, and cement. Information Technology Services, while a vital sector for the economy, is not included in this specific list of physical infrastructure.

May/June 2016

52. InvITs in India are established as trusts under which Act and regulated by which body?
(A) Established under the Companies Act, 2013, and regulated by the RBI.
(B) Established under the Partnership Act, 1932, and regulated by the Ministry of Finance.
(C) Established under the SEBI Act, 1992, and regulated by PFRDA.
(D) Established under the Indian Trust Act, 1882, and regulated by SEBI.

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(C) ₹37,500
(D) ₹10,000

Ans :

(B) ₹15,000
For InvITs, a holding period of over 36 months (3 years) qualifies the sale for Long-Term Capital Gains (LTCG) tax treatment. Since the units were held for 40 months, LTCG rules apply. The tax is levied at 10% on gains exceeding ₹1 lakh.
The taxable portion of the gain is
₹2,50,000 - ₹1,00,000 = ₹1,50,000.
The tax liability is 10% of this amount, which is ₹15,000.

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or institutional investors, making them highly illiquid.

May/June 2014

66. What major regulatory change did SEBI implement in 2019 to make InvITs more accessible to investors?
(A) Reduced the minimum subscription limit from ₹10 lakhs to ₹1 lakh.
(B) Increased the mandatory dividend payout requirement to 100%.
(C) Removed the mandatory lock-in period for sponsors of the trust.
(D) Allowed InvITs to invest in international infrastructure projects for the first time.

Ans :

(A) Reduced the minimum subscription limit from ₹10 lakhs to ₹1 lakh.
To boost participation, especially from retail investors, the capital market regulator SEBI took a significant step in 2019. It reduced the minimum investment limit, or subscription limit, for investing in InvITs. The threshold was lowered drastically from ₹10 lakhs to ₹1 lakh, making these instruments significantly more accessible to a broader base of investors.

Oct/Nov 2007

67. An InvIT's portfolio consists solely of highway projects. During the COVID-19 lockdown of 2020, toll tariffs remained unchanged, but the InvIT's income saw a significant reduction. What is the most likely reason for this?
(A) The government imposed a new special tax specifically on all InvITs.
(B) A sharp decrease in the usage of roads and highways led to lower toll collections.
(C) The professional managers of the InvIT were unable to work during the lockdown period.
(D) The InvIT was forced by regulators to sell its highway assets at a significant loss.

Ans :

(B) A sharp decrease in the usage of roads and highways led to lower toll collections.
The income of a highway InvIT is dependent on two key factors: tariffs and usage. The case specifies that tariffs were unchanged. The lockdown led to severe restrictions on movement, causing a significant decrease in traffic (usage) on roads and highways. This directly resulted in lower toll booth collections, which is the primary source of income for such projects.

May/June 2024

68. Based on the "NDCF for FY-18" table for IRB InvIT (Figure 45.4), what is the 'Total cash inflow at the Trust level (A)'?
(A) ₹51,122.81 million
(B) ₹21,911.71 million
(C) ₹65,544.19 million
(D) ₹73,480.66 million

Ans :

(D) ₹73,480.66 million
The table provides a detailed breakdown of the Net Distributable Cash Flow (NDCF) statement. Item number 5 in the table is explicitly labeled 'Total cash inflow at the Trust level (A)'. The value provided in the 'Year ended March 31, 2018' column for this line item is ₹73,480.66 million, which is the sum of all cash inflows listed above it.

Oct/Nov 2019

69. How is dividend or interest income received by an investor from an InvIT taxed?
(A) It is completely tax-free in the hands of the investor.
(B) It is taxed at a special flat rate of 15% for all investors.
(C) It is taxed as per the investor's individual Income Tax Slab rate.
(D) It is taxed at a high flat rate of 30% for all investors.

Ans :

(C) It is taxed as per the investor's individual Income Tax Slab rate.
The taxation rule for income distribution from an InvIT is straightforward. Any dividend or interest income an investor receives from an InvIT is considered part of their total income. It is therefore taxable at the specific income tax slab rate applicable to that investor for the given financial year, not at a special flat rate.

May/June 2024

70. An investor sells her InvIT units after holding them for 40 months, resulting in a profit of ₹2.5 lakhs. What is her long-term capital gains (LTCG) tax liability on this transaction?
(A) ₹25,000
(B) ₹15,000

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